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# ANNUAL REPORT OF THE POSTMASTER GENERAL

## HEARING

BEFORE THE

## SUBCOMMITTEE ON FEDERAL SERVICES, POST OFFICE, AND CIVIL SERVICE

OF THE

## COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

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# ANNUAL REPORT OF THE POSTMASTER GENERAL

THURSDAY, MAY 26, 1988

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SERVICES,
POST OFFICE, AND CIVIL SERVICE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:10 p.m., in room SD-562, Dirksen Senate Office Building, Hon. David Pryor (Chairman of the Subcommittee) presiding.

Present: Senators Pryor, Stevens, Roth, and Sasser.

## OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. The Subcommittee will come to order.

I'd like to welcome this afternoon both the public and Mr. Anthony Frank, who is the 69th Postmaster General of the United States of America. I look forward to hearing from Mr. Frank, as I know my colleagues do, in his first appearance before this Subcommittee.

A recent article in the Washington Post mentioned that the new Postmaster General of the United States is still driving a 1955 Volkswagen minibus which he purchased while a student. The ingenuity and perseverance demonstrated by such a feat indicates to me that the Governors of the Postal Service may well have found just the right individual for the job.

As Chairman of this Subcommittee, Mr. Frank, I do plan to play a part in assisting you in your efforts to strengthen and improve our universal postal system. However, this does not mean that I'm going to be shy from time to time about asking hard or tough questions, or even being critical, if I think the Service deserves criticism. I believe all of the members of the Subcommittee feel this way.

One area, for example, that you are very likely to get some questions on today is the growth of the postal headquarters and that particular budget. At our hearing last week, the General Accounting Office (GAO) informed us that the $1 billion headquarters budget, up 7 percent over last year, went unscathed during the search for deficit reduction savings. Then, in preparing for today's hearing, I learned that this 7 percent increase was on top of a 13 percent increase in the number of people working at headquarters during 1987. Maybe we ought to use that money and those people to restore window service to its previous level. Those are some of the types of questions that we may be asking this afternoon.

Mr. Postmaster General, we welcome you to this hearing, your first time before the Subcommittee.

I first must note the presence of our good friend and distinguished colleague, Senator Roth of Delaware. Senator Roth, do you have an opening statement?

## OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman.

I, too, would like to welcome the new Postmaster General, Anthony Frank, to the hearing today. With a $32 billion budget and 800,000 postal employees, the demands of your office are obviously tremendous. I congratulate you for accepting the job and look forward to working with you in maintaining a strong, universal postal system.

You were greeted in your new job in less than desirable circumstances, Mr. Frank—a rate increase, a deficit reduction package mandating that the Postal Service reduce operations and capital expenses by $1.3 billion. And like my good colleague, I have received a great number of letters from constituents in Delaware regarding these matters. I am concerned, as I am sure you are, about the reduced window service and other methods used to meet the $1.3 billion mandate.

I might say on that point, and allude to what the Chairman has already mentioned, that I am concerned by the fact that, as is so typical of Washington and of course, it occurred before you were here, that when we make cutbacks, we always protect Washington and forget where the services are to be supplied.

I would like to point out that I did not favor the postal reductions in the reconciliation bill. I favored a plan to offer early retirement, modeled much on what has been done in the private sector. That wasn't acceptable. But I believe the postal reductions were too deep, and the burden of deficit reduction should have been shared more equally by all sectors of the Federal Government.

I might say, Mr. Postmaster General, I am also concerned about the increased calls for privatizing the U.S. Postal Service. I oppose that. I believe all Americans must have the confidence in the mail system that the universal service provides. Whether a letter is sent from Wilmington, Delaware, to Lewes, or from Wilmington to Anchorage, Alaska, each individual should have the confidence that his correspondence will arrive promptly and safely.

The Constitution formally established the Federal Government's role in delivery of the mail, and I believe we must reaffirm it.

Again, I welcome you here and look forward to working with you.

Senator PRYOR. Thank you, Senator Roth.

Senator Stevens, Senator Roth and I have both made our opening statements in preparation for the Postmaster General's testimony. Would you desire to make an opening statement at this time?

Senator ROTH. Would you say his timing is pretty good, Mr. Chairman?

Senator PRYOR. The timing is perfect—his timing is always perfect.

Senator STEVENS. Mr. Chairman, I am late, and I apologize to you and to the Postmaster General. We have recently had some conversations, so I'll just put my opening statement in the record and listen to the Postmaster General, and I welcome my old classmate and friend, the attorney for the Postmaster General, Mr. Cox.

Thank you very much.

[Senator Stevens opening statement follows:]

OPENING STATEMENT OF SENATOR STEVENS

Thank you, Mr. Chairman, I would like to take this opportunity to especially welcome our new Postmaster General, Tony Frank. I hope this hearing will be a forerunner to many more "Report to Congress" from you General Frank.

We are rapidly approaching the beginning of the 21st century, and I believe this Committee and the public is anxious to know how the Postal Service will perform in the remaining years of this century and whether or not we will be able to rely on the Postal Service for inexpensive, efficient and speedy service in the next century. I happen to believe that much of the concern over this last Postal rate case, the labor negotiations, and the change in management in the Postal Headquarters, stems from an uneasiness from those who, for so long, have taken the Postal Service for granted. The public and mailer have, for years now, assumed that the Postal Service will be there, when we need them, delivering the mail at a reasonable cost—anywhere and everywhere! I hope the Postmaster General today can, not only bring us up to date on the accomplishments and challenges of the Postal Service, but give us some idea of where we are going in the future.

Senator PRYOR. Does this mean that the new Postmaster General is going to need an attorney everywhere he goes? That doesn't mean that, does it?

Mr. FRANK. No, it does not. [Laughter.]

Senator PRYOR. Mr. Postmaster General, we look forward to your statement and again welcome you, as you appear here before the Subcommittee for the first time.

**TESTIMONY OF ANTHONY M. FRANK, POSTMASTER GENERAL, U.S. POSTAL SERVICE, WASHINGTON, DC, ACCOMPANIED BY MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL, COMER S. COPPIE, SENIOR ASSISTANT POSTMASTER GENERAL, FINANCE AND PLANNING GROUP, AND LOUIS A. COX, GENERAL COUNSEL**

Mr. FRANK. Thank you, Mr. Chairman, Senator Roth, and Senator Stevens.

This oversight hearing and our ongoing relationship with this Committee are important to the Postal Service. The Postal Service has serious work to do—to serve the American people. In that work we very much depend on the support of each of our elected representatives. We need the benefit of the unique perspective each of you has as a constitutional representative of those you are elected to serve.

The function of the Postal Service is to provide a universal postal system for the American people. We are to provide the best possible service at the lowest possible rates.

Considering the scale of that assignment, I have been pleased to see that the postal system on the whole performs remarkably well. We have by far the largest postal system in the world, delivering more than 500 million pieces of mail every business day. That is about 40 percent of the total mail volume of the world, I understand. It genuinely is a universal mail system, assuring delivery six

times a week to more than 95 million addressees in communities of all sizes across the country.

Maybe the best indicator of the overall health of the system is the vote of confidence it receives from continuing growth in the volumes of mail entrusted to the Postal Service. Total mail volume has increased by two-thirds over the past decade and is projected to grow another 60 percent by the year 2000. The Postal Service has made big strides in applying technology to begin automating mail sorting tasks for improved efficiency in handling our growing job.

But we can and must do better. Nothing remains the same in this world. We must anticipate and manage for change or fall behind.

Effective management for change does not mean changing this indiscriminately. Those who would discard the universal postal system, which has grown with this country from its beginnings, propose, I believe, to tear down. My bent is to build. The necessity for change should be handled by putting it to our benefit, by probing and testing for new ideas and better ways of performing our work.

I see no evidence that major changes in structure or personnel are required. This organization has able, committed and dedicated people at each level. I have been pleased to find a deep reservoir of good feeling for the Postal Service, both among its employees, and also its customers.

We need to make more of this asset. Our labor-management relations offer substantial room for improvement. Over the past three months, the Board of Governors has had two dinner sessions with the heads of the major postal unions to explore our mutual interests. Across the country, some installations have been achieving notable successes in minimizing differences and building mutual understanding.

St. Louis is an excellent example of how improved relations within our organization can translate into better service for our customers. Institutionally, we need to do a better job of turning successful ideas and innovations into shared learning from which the entire organization can benefit.

We serve everybody. My own personal background has been mostly in reaching the individual consumer. We have been improving communications with our large business customers. They do initiate most of our volume. We will continue to stress understanding their businesses and aggressively looking for ways to serve them better.

But I want to do more to try to reach out to Mr. and Mrs. America, to people who receive most of the 153 billion-plus pieces of mail delivered by the Postal Service every year. The postal system belongs to them, too. Their good opinion is indispensable for its continued success.

The Postal Service can live with the voices proposing to dismantle our current universal postal system. Those voices are as old as the postal system. We can even benefit from their type of criticism.

The Postal Service is deeply rooted in the everyday experience of the people of this country. The abstractions offered by privatization advocates can take hold only if they find sufficient room in the shortcomings and failures of the postal system itself. The initiative

is ours. It falls on all of us who have accepted our respective responsibilities for the Nation's postal system.

Some real problems must be addressed.

We are still wrestling with the first year's requirements of last year's unwarranted budgetary restrictions on the Postal Service. These restrictions unnecessarily test the public's patience with the postal system. I am determined to restore full normal window service just as soon as we possibly can. We are taking a hard look at putting the hours back some time this summer if the savings now being achieved will give us the room to do it. But the worst thing we could do would be to restore them now and then have to cut back again later on to meet required savings for 1989.

As economic measures, these kinds of restrictions do not make sense. Coming so recently from the private sector, I find it incomprehensible, for example, that a dollar in revenue does not count just as much as a dollar of cost, or that our sale of an existing property does not count toward the net cost of its replacement. The Postal Service needs a rational, stable, forward-looking budget and planning process to meet its responsibilities to the public.

We fully support and appreciate all of the legislative efforts to avoid repeating such harmful restrictions in future years.

I have no illusion that the Postal Service can be complacent about its budget. We must achieve real improvement in managing costs, for reasons which would not change in the least if the rest of the Government miraculously discovered a budget surplus.

We have been operating on roughly a three-year cycle between rate increases. Over the next several years, we need to improve our situation as it looks now, just to continue to meet that schedule—and we will.

I personally would like to see us reach the point where we could stretch out the period between rate increases further. I am convinced that the American people are not going to be happy with rate increases that come inexorably every third year. There is no doubt that business mailers are already looking for other possible ways to get the services they need.

There must be some answers for the Postal Service, and we intend to find them. One answer we already know: No single, magic solution is going to make the problem disappear.

What we are looking for is to put together a number of separate initiatives. Getting, for example, $100 or $200 million annually in each of 10 to 20 areas is a responsible and reasonable target to shoot for over the next several years. We are going to be looking for fresh ideas that can be tested as well as existing concepts that can be expanded.

Two areas we are going to emphasize are work-sharing and contracting out.

Work-sharing already is employed extensively by mailers and the Postal Service to improve efficiency and save money. Much more can be done with it. This concept involves mailer preparation of mail in ways that save the Postal Service time and money once we start to process and deliver it. In return, the Postal Service charges a discounted rate. Overall savings are available because some tasks are done more efficiently and cheaply before the mail is consolidated in the mail stream than afterwards.

The Postal Service and mailing industry representatives have formed a joint project to develop additional work-sharing programs that will bring mutual benefits through reduced costs or better service.

Contracting out is another existing strategy which offers additional promise. The Postal Service has always looked to the private sector for transportation and some other services. Smart "make or buy" decisions based on real cost savings are standard management tools which we cannot afford to ignore.

The Postal Service is seeking to expand sales of stamps on consignment at supermarkets and other retail outlets. Private companies may be able to help us with other tasks as well. We want to explore any ideas that can hold down the costs or increase the accessibility of our services for the American people.

We also plan to look at the procedures now in place to see if there are ways to achieve a more realistic pricing and ratemaking process.

Since coming to this job, I have been strongly impressed by how deeply people in the postal system and in the entire postal community care about the service and are committed to assuring its continued success. We have every reason to feel that we can accomplish what is necessary, to guide the Postal Service through the well-considered, constructive changes that will enable it to continue providing the American people what they expect from the system—good service at reasonable cost.

Thank you for permitting me to make this statement. I am happy to respond to your questions.

With me today, Mr. Chairman, is our chief financial officer, Mr. Coppie; our chief operating officer, Mr. Coughlin; and next to him, our General Counsel, Mr. Cox.

Senator PRYOR. Mr. Postmaster General, thank you.

Senator Stevens, I'll go ahead with about 5 minutes of questions and yield to you, if that's all right.

Senator STEVENS. Certainly.

Senator PRYOR. Mr. Postmaster General, I would like to talk about some of the problems that we discussed, not with you but with the previous Postmaster General and his people, back in November and December 1987, during the so-called "summit" on the budget reconciliation bill, in which we were desperately scrambling to find dollars to meet not only the targets of Gramm-Rudman-Hollings but also the very, very concise terms and agreements of the summiteers in the budget process.

I am sure that, even though you were not in your present position then, you followed that very closely, and I imagine you are up-to-speed.

On page 33 of the Annual Report of the Postmaster General, there is a table showing the change over prior years in the number of postal employees. While the grand total of those employees was up only around 6,000 people, the number of full-time employees increased by about 30,000. That's about a 5 percent increase.

During that same period, there was a 13 percent increase in the number of what we call headquarters employees.

Now, I would like to know why, during this period of time, when we were asking for overall cuts throughout the postal system, clos-

ing back the window service, limitation of some other services, why is it that the Postal Service had to increase the headquarters personnel and budget to any large extent?

Mr. FRANK. Well, I'd like to ask Mr. Coughlin to speak to that. I would point out in the first part of your question that the reason we had such a small increase in the total number of employees, less than one percent, is because a number of the part-time flexible employees were converted, as the labor contract provides, to full-time. The number of full-time has gone up, but the grand total has almost stayed the same.

As far as the headquarters goes, you are aware that one of my many predecessors here—it seems as though part of my title is "new"—caused a reorganization which I, on balance, applaud, and it did change around a number of the classifications. I would like Mr. Coughlin to speak to that.

Senator PRYOR. Mr. Coughlin?

Mr. COUGHLIN. Yes. In terms of what we call headquarters, and the way we classify headquarters employees, there are something like 12,000 total. It includes about 2,200 people in the building down at L'Enfant Plaza, and it includes a number of what we call headquarters-related units, including the Inspection Service, some Overhaul and maintenance and support kinds of people, those kinds of things.

The numbers that appeared in the Annual Report reflected, I think, about a 400-person increase in that number. Some of it was a carryover effect of the reorganization that Mr. Frank referred to, because we did shift some positions which had been on field rolls to headquarters rolls. And there were two or three areas where we did in fact increase the real manpower in some of our units to support specific programs like automation.

I might tell you that since the end of the fiscal year, which the Annual Report number reflected, the numbers of people on our headquarters rolls have actually declined almost 200 since that period of time.

Senator PRYOR. Well, from 1983 to 1986, those same figures indicate almost a zero increase in the size of the headquarters staff, and then we come up to 1987 and see a 13 percent increase. Now, you don't argue with that figure, do you?

Mr. COUGHLIN. No, I don't argue with the numbers. What I'm saying is that in 1983 or up to 1986, some of those people who are now classified as headquarters employees were in fact on field rolls.

I offer, for example, the Transportation Management Service Centers. They used to be on regional office rolls in the field; they are now on headquarters rolls, and they report to headquarters.

Mr. FRANK. Or the legal staff, Mr. Chairman, there were 40 lawyers out in the field; there are still 40 lawyers out in the field, but they are now classed as being directly part of headquarters, with no increase in people.

Senator PRYOR. So that was a 13 percent increase in the number of individuals in the headquarters staff. Now let's talk about the dollars. Let's go to 1987 in December, during the Summit, when we decided, or it was the decision reached by the Postal Service that they would cut back window service. The entire Postal Service was

cut back uniformly, except one part, and that was the headquarters budget. We saw a 7 percent increase there. We saw no cutbacks there; we saw no freezing, and we saw a 7 percent increase in the headquarters budget.

Mr. Coughlin, would you like to address that concern?

Mr. COUGHLIN. I'll address the overall approach to it and perhaps let Mr. Coppie talk more specifically about dollars.

But first of all, I'd like to say I think it is important to understand that the headquarters function, despite popular opinion, does in fact perform a useful function.

Senator PRYOR. I am not saying that it does not.

Mr. COUGHLIN. And one of the things we had to weigh during this period was the short-term requirements of the Omnibus Budget Reconciliation Act against the Postal Service's ability to produce in terms of both productivity and service down the line. And a considerable amount of the activity that goes on in headquarters involves developmental programs.

This year, for example, we are in the process of deploying more equipment in the field than we have ever deployed before; equipment that will bring real productivity increases for the Postal Service. And those programs are coming into the field today because of the efforts of a number of our headquarters units. We have got the same kinds of things on the drawing board for 1990, 1991, 1992.

In some areas, we allowed some growth to occur to keep those programs in place. In other areas of headquarters, there were in fact real, absolute dollar reductions in those budgets for this year.

Senator PRYOR. But, an overall 7 percent increase since we last saw these figures. Now, has the 7 percent increase in dollar figures for the headquarters increased the productivity of the Postal Service?

Mr. COUGHLIN. I am convinced it has, yes, sir.

Senator PRYOR. Has it increased the services to the consumer and to the postal customer?

Mr. COUGHLIN. I am convinced that they will, yes.

Senator PRYOR. I also see that the Annual Report talks about the fact that the total factor productivity for the past 16 years has averaged 0.3 percent. Just focusing on the last couple of years, I see that the 1986 Comprehensive Statement on Postal Operations says productivity was up 1.1 percent; the 1987 Comprehensive Statement says an indication of an increase of only 0.1 percent.

So is the productivity of the Postal Service rising or falling?

Mr. COUGHLIN. Over those 2 years, it rose. I will tell you that during the last half of calendar 1986, we had some problems matching our manpower resources with the work load in the field, because in the first half of fiscal year 1987, we in fact had a negative total factor productivity, but we were able, through our own cost containment program, to bring that back into the positive. And I'll say through the first half of this year, we have had some pretty strong total factor productivity growth. But we did have a slump there, yes, for about a 6-month period.

Senator PRYOR. Well, if I might ask this question—what would you say is your major thrust right now, your number one priority for increasing productivity in the Postal Service? What would be number one?

Mr. COUGHLIN. Automation. Automation and mechanization of functions we have out there.

Senator PRYOR. What would be number two?

Mr. COUGHLIN. Capitalizing on the resources and the capabilities of our people.

Senator PRYOR. And do you have a third?

Mr. FRANK. Work-sharing and contracting out, of course, using other people's premises and productivity to manage the mail before it gets to us. That is very important.

Senator PRYOR. Mr. Postmaster General, the issue of contracting out is one that I am concerned about. Are you someone who has a deep and abiding philosophy in contracting out the services or functions of the Postal Service?

Mr. FRANK. No, I wouldn't say so. I think that each function should be examined on a "make-or-buy" basis, and there are some things—most things—that don't lend themselves, really, to contracting out. But more than 13 percent of our expenses already go for contracting out. I am sure that that is not exactly the right figure. I don't know whether it should be 9 or 12, or 11 or 15, but it would be a statistical miracle if that were exactly the right figure. So we'd like to look. But we are not willy-nilly trying to contract out. There can be disadvantages, too. So we are going to be very careful.

Senator PRYOR. Senator Stevens, why don't you ask a few questions at this point, and then I'll come back later.

Senator STEVENS. All right, Mr. Chairman.

I want to start off by thanking the Postmaster General for his efforts, in working with Congress. I would even go beyond that, as I said the other day, I commend you for being one of those dedicated citizens of our country who is willing to take on a job like you have taken on. There is a commitment to taking on such a job that many people are not willing to make, and we are pleased to be able to work with you.

As I said also the other day, I congratulate you and your staff on some of the innovative ideas that have come about now in approaching the marketing of your product. You are marketing stamps just like other types of marketing entities, and you have expanded your outlets for the stamps.

Do you have any other plans such as selling stamps in supermarkets that are innovative for expanding sales and meeting the convenience needs of the public that we ought to know about?

Mr. FRANK. Well, we are looking at a number of areas. I know that you all recognize that we don't have control over our own pricing, so that is an element of marketing which is removed from us, which is certainly a unique experience for me.

We are now with 17 supermarket chains that manage 12,000 outlets. We think we could push that to 35 chains with double the number.

We are adding vending machines. We are expanding our stamps by mail, which is proving to be extremely popular in some parts of the country, and our stamps by phone. In addition, in Los Angeles, we are experimenting on a successful basis—I think we need to expand it throughout the system, with what I call "lobby director". This is a man or a woman who, attempts to make the customer's

visit to a lobby as short and as pleasant as possible. Quite often, they only come in for stamps, and we direct them to a special window or to a special machine which can get them in and out and allow the complicated transactions to go with the skilled window clerk.

Those are some of the things that we have under way.

Senator STEVENS. I take it those innovative things are for purposes of trying to shorten the lines in the post offices. Is there any indication that it is working now?

Mr. FRANK. Yes, it is working, and the level of complaints in those offices where we are employing these innovative ideas is down basically to zero. One of the reasons is we have extremely skilled window clerks whose skills are just not being used by selling stamps; they should be dealing with more complex transactions.

Senator STEVENS. We wear a lot of hats in Congress, Mr. Postmaster General. One that I wear is Ranking Member on the Senate Rules Committee. I know that there is pending legislation to deal with ownership of the old main District of Columbia Post Office. We know that there have been negotiations going on between GSA and the Postal Service over what is a fair market value for the area that we would like to occupy, in part by the Legislative Branch and in part, I believe, reserved for a postal museum for the Smithsonian. Unfortunately, we find that your people believe that the fair market value of that space is greater than the GSA tells us we can pay for the space. We have made GSA the manager of space for all of us to occupy. You are lucky. You don't have to deal with that. You've got your own system.

But I'd like to ask you if there is any chance that we can work this out. Senator Ford, who is Chairman of our Committee, feels very strongly about it, and so do I, that we ought to find some way to deal with this, that the space is basically empty now, and you are not using it—not very much of it. The Bureau of Labor Statistics, the GSA tells us, would take part of it. We need part of it for a new computer center. You need part of it for ongoing financial and carrier distribution activities. It is complicated. But a solution is necessary.

Let me put it this way. I am informed that you all are insisting on a price per square foot that GSA tells us we can't pay. Is that information right?

Mr. FRANK. It is not quite right. I think that I can assure you that we are quite close. It is to be expected that the people seeking to rent the space from us would argue for a lower rate. And of course, the issue is—I would hope the issue is—what is the market value.

There has been a vacancy at GSA, as you know. It has been very difficult to find someone there who would take the final responsibility to say "yea" or "nay". If that problem has now been resolved, I expect that we will have a definitive decision by next Tuesday. Next Tuesday, the parties come back together. They have agreed on what market rates are for comparable buildings, and I think we are very close. And with your occasional push, I am confident that the matter will be resolved next week.

Senator STEVENS. Well, I hope that you agree that the goal we are setting of having the Smithsonian establish a Postal Service Department museum this close to the Capitol is consistent with the objectives of the Postal Service, too. That is not a bill you will pay, but eventually will be part of the Smithsonian.

It seems to me that you have a lot involved in getting this worked out. We do. I have got to tell you, we have got to move that Computer Center. It is being criticized—I spent about 45 minutes today being interviewed by members of the press about problems at the Computer Center, and the problem is like Topsy—we just grew with the computers, and all of a sudden they are all over this Capitol, and they have got to be centralized if we are going to get control of the system now, and that's the only place we know where we can do it.

I have carried out my role, I think, for the Rules Committee in raising it here today, but I want you to know we all really seriously need a decision on that, and I'm delighted to hear you say you think it can be done soon.

Mr. FRANK. It is an important asset for us. Successfully renting that space that will reduce our need for postal rate increases for many years into the future. I wouldn't want anyone to misunderstand about the postal museum. If we do a postal museum—which I personally would like to do—it would be in the least desirable space, in the basement. And in my discussions with the Smithsonian, I believe that the museum can and should be self-funding through its gift shop. So it is not going to affect availability of space; it is not part of our consideration whether to rent the building or not. It would be a nice by-product.

Senator STEVENS. I just have a couple more questions. Last year, I asked the Postmaster General about the report of an internal study that recommended that the Postal Service get out of any business where they have less than 10 percent of the market share. I am told there has now been a substantial reduction in the market share of parcel post. So I am constrained to ask you whether that is true that there has been a significant reduction in parcel post volume and whether or not this market share concept is going to apply to parcel post.

Mr. FRANK. Coming from the private sector, I am more than a little angry about our share of market in parcel post, which I suppose is about 7 percent. And even that 7 percent consists of many items that United Parcel Service will not accept—worms and live chicks and perishable Florida fruit, to mention three.

We have been in a difficult position versus United Parcel Service. When we apply for rate changes, Senator, before the Postal Rate Commission, we have witnesses from United Parcel Service who accuse us of predatory pricing. I am not satisfied with that state of affairs, and I expect to make a change.

I personally view parcel post to be one of the 10 to 20 $100 to $200 million projects. This state of affairs cannot continue.

I would say to you, if you ask the industry, the parcel shippers and so on, they would say they like us to be in the business because we are all that keeps United Parcel Service rates from being even higher than they are, which I don't think is much of an accolade to

the Postal Service. I want to see it increase. I don't like the situation.

I think under the present pricing scheme, it may have to stay at that level, but I hope to change that pricing scheme.

Senator STEVENS. I have got to tell you that in my judgment, you had to be innovative in your approach to parcel post. People should not have to go so far and stand in so many lines in order to mail a package parcel post. If you can reduce this inconvenience you would restore the market share.

Mr. FRANK. We just unveiled an automatic mailing machine which would allow you to figure out which service you want—priority or parcel or express—and then mail the package. You would put either cash or a credit card in it, and a postage strip would come out, and you'd affix it, and it would be off. I think that type of convenience, if we put those machines in shopping centers and building lobbies as well as postal lobbies, alone will enable us to get back a bigger share of the market. We just unveiled it 10 days ago, and we will be field-testing them the rest of this year. If it works, as I expect it will, we'll have those machines out there, and I think it will help us.

Senator STEVENS. We have a way of conveniently handling parcel post in Alaska, I am sure you know, where we handle these shipments on pallets—we call them "igloos"—and they are weighed, and just an overall rate applied to it, people put their things on the pallet, address them for a particular destination, and with an overall application of postal rate, it is handled as a single piece, the pallet, rather than each individual parcel.

Do you do that elsewhere? Could I go somewhere here and just put something in a basket that is going to Los Angeles, and no one would ever have to touch it again, or is this just an Alaska thing that we dreamed up?

Mr. COUGHLIN. No, Senator. It is essentially an Alaska situation. We have made some attempts through the Postal Rate Commission process to design new classifications that would allow us to do similar kinds of things, not quite like that, but similar kinds of things, particularly with parcels moving from businesses to households and that kind of thing.

We made an attempt, for example, in 1978; we made another attempt about 2 years ago along the same lines. But neither worked out for us.

Mr. FRANK. I just would like to say I have a competitor that has 93 percent of the parcel market that accuses us of monopoly. I don't care much for that—and that testifies against any rate changes that we suggest. I don't much like that. It has got to be changed.

Senator STEVENS. I know that competitor. They came up and started an operation in two cities in my State and left. They are back now. As a practical matter, though, I do think that we have a situation here in the Congress where we all put our mail in a sack, and we know that it is going to be delivered to our main office at home without ever being handled. I just don't know how much of such a service is available to a lot more people. I wonder why someone couldn't walk into an office in Washington and put a package

into a bag and know it is going to Los Angeles, if I did some of the work there, I knew it would go there quicker.

I think the mailer would do more work, is what I am saying. We do more work, I think, in Alaska in terms of the way we handle the mail before we give it to you than people do elsewhere.

Mr. FRANK. If your suggestion puts us back on the scoreboard, we'll look into it.

Senator STEVENS. One last comment, again going back to my Rules Committee hat. Are you starting to establish delinquent accounts of organizations, clients, or customers, who owe you money. If so, I have two questions. Do you deliver the mail for those people who are delinquent, and if you do, what are you going to do with Congress? We are delinquent.

Mr. FRANK. Major mailers always pay us in advance. We have trust accounts that are drawn down. We have the money in advance, which Mr. Coppie invests for us. I am not aware of any substantial amount that is delinquent.

Senator STEVENS. But with us, we run up a bill, and you pray.

Mr. FRANK. No. We have every confidence in our elected representatives. [Laughter.]

Senator STEVENS. I have some other questions, Mr. Chairman, for the Postmaster General, that I'd like to submit that deal with some particulars. But I really think that we are at a crossroads with the Postal Service with the attacks. You say you can live with them. The privatization attacks that are coming are more intense and more varied now than they ever have been in my service in the Senate, and it appears to me that the country is eager for this innovation from you.

I again congratulate you for what you have done so far. I hope each year we hear more of it. You say you don't have control of the price—well, the guy who runs the McDonald's up my way; basically sells for the same price they do in Rehoboth, in Delaware, or here in Washington, D.C. They don't have much control of the price, but they do a heck of a lot of marketing, and I think you all ought to do the same thing. I think you can restore volume in a lot of these places where you have problems.

Mr. FRANK. I think so, too.

Senator STEVENS. I would urge you to do so, and tell us what we can do to help you.

Mr. FRANK. Yes, sir.

Senator STEVENS. Thank you, Mr. Chairman.

Senator PRYOR. Thank you, Senator Stevens.

Mr. Frank, we have now had several months of a window closing epidemic and cutting off service out there. Senators Stevens, Sasser and Pryor, hear complaints every day from many of our small business people, patrons of the Postal Service, complaining that they are just not being served properly because of the inconvenience which they are faced with.

Now, one, how much have we saved in doing this? Two, when is this full service going to be restored?

Mr. FRANK. Well, as I indicated in my statement, if we are convinced that we can meet the scoring of the December action that the Congress took, we hope to do that this summer, probably in

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late July. At the moment, it looks very favorable toward doing that—and also, I believe, to restore Sunday pickup.

But we need to assure ourselves that we can still achieve the required reductions. We have a scoring requirement of $270 million for the full fiscal year of 1989, and it would just be a firestorm, a justifiable firestorm, if we were to reopen and then shut down. It would just be a disaster.

Senator PRYOR. Well, I may be wrong, and I may not know the economics of the postal system and the Postal Service, but I have never been convinced, nor am I convinced today, that that has been a real, true dollar savings—maybe on Sunday mail pickup, maybe someone could convince me of that; I'm not even certain there—but the cutting back of 30 minutes to an hour, say, at the Camden, Arkansas, post office, or the post offices in Tennessee, I just don't see where that saves dollars. Would you educate me on that?

Mr. FRANK. I can't educate you specifically, but I know that Mr. Coughlin can. I have been assured that these savings are accountable, tangible, and demonstrable. I'd like Mr. Coughlin to tell us about it.

Senator PRYOR. Wasn't the original intent to try to find about $40 million of savings here in this area?

Mr. COUGHLIN. Senator, we estimated that the value of about a half-day per week in this fiscal year was about $40 million. We did estimate that there was going to be some additional cost for additional traffic during the hours that we kept the windows open, and we also thought there would be some start-up costs associated with the implementation of it. As it turns out, those haven't been quite as high as we thought they might be.

Clearly, the smaller the post office or the smaller the retail units you get into, the more difficult it becomes to save money by closing your window for half an hour or an hour. It depends on the employee mix and make-up in there. If the employee is going to be there anyway, that doesn't make much sense, and our instructions clearly did not envision that kind of thing happening.

If you get into a larger facility and multiple employees, particularly with part-time and casual employees, you may have full-time employees on the window, and they may go back into the distribution operation, but at some point, there is a part-time employee who is not working, period, or a casual employee who is not working hours that he otherwise would have worked.

And our records up to this point indicate that it is in fact occurring.

Senator PRYOR. That what is occurring?

Mr. COUGHLIN. That the money is being saved.

Senator PRYOR. Well, I don't understand the system, how you account for that. One system I do understand, though, I think I understand, is the fact that your headquarters account, it looks like to me, is probably going to grow about $70 million since our budget summit and the anticipated savings of closing these window services is about $40 million. I would much rather have kept the windows open and increased by a lesser amount or frozen the headquarters account. I frankly think that's a mistake, and I think the perception and the message that we send out throughout the Postal Service community is, frankly, wrong. And maybe we are part of

it—maybe the Congress is. I don't think we knew that that was going to happen.

Mr. COUGHLIN. Well, I wouldn't sit here, Senator, and tell you it was an easy decision to make, because as a career postal employee, it galls me to have to affect the services we provide, too.

Part of what we were faced with—and I think I alluded to it before—was trying to balance off the short-term requirements of the Act against the longer-term requirements of our continuing to build the system and its capabilities. That is part of why we did leave some money and invest in some aspects of our headquarters operation, because we do want to be able to produce productivity improvements and service improvements down the road when these various efforts come to fruition.

Some of this is coming to fruition right now. Some of that increase, for example, in headquarters was used to fund people and systems that are out in the field right now, helping to implement the deployment of those massive numbers of equipment that are out there. That is part of the trade-off.

Senator PRYOR. Well, in a moment, I am getting ready to yield to my very good friend and neighbor, Senator Sasser, because he has a series of questions, and if he doesn't cover the off-budget issue, I am going to come back to that in a moment, as well as some more of these items.

But, I just want to tell one little story here. I went to the State legislature 28 years ago, and I will never forget, Jim, who I took my seat in the State legislature. I was real young and energetic and aggressive and thought I knew all the answers at that time. I took my seat next to a gentleman from up in the mountains of Arkansas, Mr. Gene Houston. He had been in the legislature for, I think, 37 years.

He turned to me just as I had held my hand up to get sworn in and take the oath of office, and I felt like I could conquer the world that day. I had a red boutonniere on, my family was up in the gallery, and I was proud as I could be. He said, "Son, I want to give you a little advice. You can do anything in the State legislature and in politics and survive except four." He said, "Don't ever mess with a person's dog, his gun, his fishing hole, or his mail service."

He said, "Now, you can get by and sort of explain away just about anything else."

Now, we have messed with a lot of people's mail service out here, and at the same time, we have increased their cost of mailing, we have increased their cost of postage, and they don't understand it. We have got to do a better job of educating them as to what we are doing and why these decisions are being made.

I applaud you, Mr. Postmaster General. I know you have been out, with hands-on experience lately, looking at some of these on a personal basis. And, I understand that some of the people in the headquarters are going to be doing that. I really think that is splendid. I hope you will encourage that, and I hope you will emphasize this to the people in Washington, that this is not the real world up here.

Senator Sasser and I face the people who live in the real world when we go back home, like we'll be back home this next week, and we'll hear a lot of complaints. We are finding it difficult to ex-

plain what is happening and to justify what is happening, even though we know that your intentions are good.

Senator Sasser?

Senator SASSER. Thank you very much, Mr. Chairman.

One question comes to mind instantly—did you follow the advice of that old State legislator from Arkansas?

Senator PRYOR. Well, I violated one of those rules one time, and I got beat. So he was absolutely right.

## OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Well, Mr. Frank, I want to welcome you here today as the Postmaster General of the United States. We are delighted to have you here, and I am delighted to know that you are out into the Postal Service itself, looking it over and getting some hands-on experience. I don't think there is any substitute for that, getting down to where the rubber meets the road and seeing the employees, hearing their problems, perhaps seeing some of the postal patrons and hearing some of their problems.

As Senator Pryor has said, we hear from both of them, both sides, with regularity.

So I am pleased that you have assumed this new job, and I am optimistic that you will bring to the Postal Service some new views and perhaps renewed energy and renewed dedication. There is nothing like getting new blood in any organization, and the Postal Service is no different from the rest; it can use it.

Mr. Chairman, I have a prepared statement that I ask unanimous consent be included in the record.

Senator PRYOR. Without objection, it will be placed in the appropriate place in the record.

[Statement of Senator Sasser follows:]

### STATEMENT OF SENATOR SASSER

Good afternoon, Mr. Chairman. Let me join you and the subcommittee as a whole in welcoming Postmaster General Frank.

Postmaster General Frank, we appreciate your multi-year commitment to the Postmaster General's job. These will be challenging years ahead for the Postal Service and continuity of leadership is essential.

Now as far as the post office is concerned, recent headlines have zeroed in on the deficit crunch, its impact on postal operations, and the latest increase in postal rates. So as I say, General Frank, you have accepted a tough assignment in which we wish you every success.

On a positive note, let me say that the American people do get a great deal from the postal service. Postal employees move literally billions of pieces of mail to their destination, the overwhelming percentage of them on time. They face problems of distances and transportation that few other countries must face. Yet, as *USA Today* reminded us only yesterday, it costs a lot more to mail a first-class letter "over there"—48 cents in West Germany, for example; 45 cents in Japan; and 42 cents in Great Britain, versus 25 cents in America.

That statistic is all the more striking when you consider our commitment to "universal service"—the principle that every American has a right to equal access to the mail. This takes priority over the "bottom line" on a balance sheet. I value that principle. So do my many constituents who live in small towns and rural areas. And so I repeat my opposition to the call in some circles for "privatizing" home mail delivery. This is one Government function that must continue to be guided by service for all, rather than profit for a few.

Not long ago, I got a letter from the postal workers in Manchester, Tennessee. They said, "Senator, let us give you an idea what we deal with sometimes—a letter addressed as follows: "Duplex Next To the One With The Dog With the Broken Leg Manchester, Tennessee Two Miles North of Shoney's."

It turned out, by the way, that the duplex was two miles south of Shoney's, instead of North—but the letter got delivered just the same. I agree that it would be hard to expect that kind of effort from a private carrier worried about profit, as opposed to a postal servant who identifies with the community.

So as you begin your tenure, General Frank, I think you will be able to draw on a lot of positive spirit within the Postal Service itself. We, too, look forward to working constructively with you.

One of the areas we will have to deal with, however, is the responsiveness of postal service headquarters—to the needs of its field operations, and to its customers.

For example, I am concerned, along with other members of the committee, about the contingency allowance in the postal service budget. As you know, the unexpectedly low response by postal workers, to the "FERS" retirement option, saved the service close to a billion dollars in anticipated costs. Yet the board of governors, against my urging and that of many of my colleagues, approved the proposed rate increase, roughly a third of which is now earmarked as a "contingency." I will be interested to know your thoughts on the need for a contingency fund of this size. Indeed if the U.S. Government had a contingency fund of comparable size, it would approach 30 billion dollars.

We should also address the matter of budgetary cuts at postal service headquarters. It's my understanding that there simply haven't been any—that the burden of cutting operating costs has been borne by the regions. That has led, for instance, to such controversial measures as cutbacks in window hours. I question whether the projected savings from these cutbacks are worth the cost in customer inconvenience and goodwill, particularly if they could be shared more equitably by headquarters.

And, I'm concerned about how the Postal Service plans to pass on cost efficiencies to the average postal users. I'm thinking especially of the "courtesy envelope mail" option which the postal service rejected, at least for now. According to Ms. Steiger of the Rate Commission, this option might save the consumer up to a nickel by using pre-coded business reply envelopes. Why, then, wasn't the consumer given this price break?

In short, I think that so long as the Postal Service considers itself answerable to the people it serves, it deserves public support and will get it. That's the spirit of those good folks in the Manchester, Tennessee post office. And it's the spirit in which we look forward to working with you to make our postal service the best possible.

Senator SASSER. Now, after saying all the nice things, Mr. Frank, I want to say—and I think I might have mentioned this to you privately—that I am concerned that on occasion, the top Postal Service management really isn't sensitive enough to the needs of the average consumer. I have no doubt of your good will and no doubt of the good will of the top Postal Service management. But let me give you an example of what I am talking about. It concerns the courtesy envelope mail.

I would like to preface my question with a short review of that concept, if I may. When it recommended the postal increases last March, the Postal Rate Commission admitted the following: "Much household letter mail consists of bill payment and other pieces of courtesy envelopes supplied by the merchant, the credit card company, or other business."

Continuing on, the Postal Rate Commission said: "Household mailers are the only group so far unable to qualify for the many discounts provided for mail prepared suitably to use automated equipment or in other ways bypass costly postal operations."

What they were saying was that these courtesy envelopes that come with the American Express bill or the electric bill, many times are prepared in such a way that they can be processed automatically and quickly.

Now, another witness pointed out to the Postal Rate Commission, and I quote, that "First class mailers do not have readily available

alternatives to sending mail pieces within the Postal Service mainstream."

The average household could have a cost-justified discount, just as large volume mailers did, if the Postal Service would accept the Rate Commission's recommendation of a discount for so-called courtesy envelope mail. This means that business reply envelopes could be pre-printed with the information needed to allow automatic sorting and delivery to a post office box—and that's where most of these bills go, to a post office box—without tieing up mail carriers out on the routes.

This would mean significant cost savings for the consumer. Ms. Steiger of the Rate Commission told the Committee last week that the savings was estimated at five cents an envelope, which was the discount recommended by the Office of Consumer Affairs. And actually, if you read the Rate Commission's report, you find that the five-cent figure is conservative; that some witnesses estimated the savings as high as eight cents per envelope.

Now, it is all but certain that these precoded courtesy envelopes would be used by the consumer. And you contrast the certainty of them using this precoded courtesy envelope against the ZIP+4 option, which is entirely up to the discretion of the user, and it appears that when we talk about the work-sharing and the ZIP+4, the consumer would use the work-sharing that would be represented in the courtesy envelope.

Why did not the Postal Service follow the recommendations here of the Postal Rate Commission and give the consumer this discount for the so-called courtesy envelope? Mr. Frank, can you shed some light on that, or did you participate in that decision?

Mr. FRANK. I did participate; by the rules of the Board of Governors, I am not permitted to vote on that type of an issue, but I did participate.

The Board of Governors, I believe, postponed their decision for three meetings on that particular issue, and the matter was decided by a split vote not to offer it. The consensus was based on a number of things.

In a more minor way, it represented a confusion for the average customer to have two kinds of stamps on hand, and we could well envisage that they would use a lower-denomination stamp on a regular envelope, and it really does take a great deal of sophistication in order to save the average household maybe $10 a year. So there were a lot of aspects to consider.

On the matter of the saving, we give a one-half-cent discount for ZIP+4 and this proposes five cents, so it is quite a difference of tenfold.

The basic saving, well over two-thirds of the saving, comes from the postal box aspect and not from the preceding. We have a lot of mail now that would qualify for this. It appeared, under the best estimates that we could come up with, that such a discount would cost somewhere around half a billion dollars a year. Inasmuch as we have, by law to play a zero sum game—that is, our revenues have to equal our expenses, not more and not less, over a period of time—that would mean a rate increase for some other class. That class pretty clearly would be first class. That I believe was the decisionmaker for the Governors.

So basically, giving individual customers a rate break on courtesy envelopes would mean imposing on individual customers a one-cent increase in stamp rates, and that is a very difficult situation. But that's the bottom line, because we are already handling so many precoded courtesy envelopes and not giving a discount.

I wonder if our General Counsel Mr. Cox would like to add something to that.

Mr. Cox. The only other thing I think that should be added, Senator—and I know you understand this, but I think everybody should understand it—the Rate Commission recommended what it called a "shell" classification change, "shell" as in "empty shell". It did not recommend any rates to go with it. That was to be left to a later day. At that later day, it is still possible—and if it proves out, I assume we'll go ahead with it—at that later date, you can change not just the "shell" classification, but you can make a real classification change, with rates attached to it.

You see, if the Governors had approved what the Rate Commission had done on a Monday, there still wouldn't be any rate change on a Tuesday; there wouldn't be any discount available to the ordinary household or any other mailer on Tuesday, because there wasn't any rate associated with the recommendation. The options are all still open.

Senator SASSER. So the option is still open to give a discount for the courtesy envelope?

Mr. Cox. At some later time.

Senator SASSER. How late, Mr. Cox? How much later?

Mr. Cox. Well, that would involve the initiation of a classification change with rates attached to it.

Senator SASSER. Well, how does the Rate Commission go about estimating savings if they can't recommend a specific discount?

Mr. Cox. Well, I think there were estimates, but in the nature of provisional estimates—kind of, we had better check into this some more before we really know just where we are going on it—that kind of thing.

Mr. FRANK. And they certainly didn't take into account the volume of such mail now that would be affected, the savings from which were already being realized.

Senator SASSER. Let me move on to another subject here. The Postal Rate Commission remarked in its opinion and recommended decision issued March 4 of this year, according to that report, nearly one-third of the recommended rate increase is for an allowance for contingencies. Several parties raised questions about whether a large contingency undercuts efficient management. Suggestions were made as to how the Governors might more scientifically estimate the magnitude of this item in the future.

Now, if I understand those comments correctly, what they are saying is that the one-third of this rate increase that is set aside for large contingencies works against efficient management. If you've got a large contingency out there to take care of problems, then you are probably not as prone to deal with these problems under the same compulsion that you would be otherwise.

We are told that the Postal Service is cutting expenses to the bone. As Senator Pryor, our Chairman, has said, in many communities, it has cut window hours. In some areas, we are switching

mail from aircraft to slower ground transportation, all in effect to save money. But now we hear that one-third of the largest rate increase is a set-aside, in effect set aside for a cushion.

Is that accurate?

Mr. FRANK. It is accurate, Senator.

Senator SASSER. Well, what do we say to the argument that setting aside this large contingency would be discouraging to those who are trying to operate in a more cost-efficient manner?

Mr. FRANK. I don't believe so. Traditionally, the Postal Rate Commission has granted a contingency, and they did this time. They certainly didn't make an adverse comment. They voted for the contingency.

Most rate increases, as I testified, are for three years. One billion three hundred million is 1 percent of the revenues for the next 3 years. I don't think one percent of $120 or $130 billion is excessive. There is not a corporation in the world that wouldn't be happy to come in, in 3 years, within 1 percent. There are a lot of things that can affect us.

There is one thing I would like to add, and I think it is a little technical and a little bit beyond me. But the Postal Rate Commission, what they attempt to do is take the next full year as a test year and, on a cost basis, try to break even, and then they grant a contingency on top of that.

Well, our costs go up each and every year because of inflation, mainly in the wage area, so it is clear that if we break even in the first year, we lose money in the second and third year, unless we expend super-human efforts, which we hope to do.

So we need that contingency to help us extend the rate cycle for as long a period as possible. So I don't think a one percent contingency over the projected period is excessive. I have asked that the 1989 budget process which is underway now attempt—and I believe it can be done—attempt to come up with a surplus in the first year of exactly this contingency amount. I want to carry that contingency over. So suddenly, instead of becoming a disincentive to efficiency, it has become an incentive to efficiency. And Mr. Coughlin and Mr. Coppie have met with four of the five regions and set forth that goal of making a surplus of $1.3 billion, to people's somewhat shock and amazement.

Senator SASSER. Well, I'll just bet you that that contingency is going to be absorbed very quickly, because I have been around Government for a number of years, and in the Postal Service, there are still a lot of instances of Government associated with it, and Government tends to spend whatever is available. We have a tendency even to run over here.

Mr. FRANK. Well, we have a suggestion from the Office of Management and Budget that we should pay for past retirement prior to 1970 and so on; that alone could cost hundreds of millions of dollars if it were passed. So you are absolutely right, I think it is needed; I don't think one percent is too much. I hope that's all we need.

Senator SASSER. I don't have any further questions, Mr. Chairman.

Senator STEVENS. Mr. Chairman, I have just a couple. I have to leave right away. Would that be all right?

Senator PRYOR. Certainly.

Senator STEVENS. On that last item, I want to say I agree with you 100 percent. If the Post Office Department had been properly run, those pensions would have been properly funded, and it wouldn't be carrying debt over until today. That debt ought not to be a burden on you as the successor entity. We have got to fight that battle, or you will never survive. When you start putting on costs of improper management back in the days before we really understood the financial implications of pensions and retirement plans, you won't survive.

Mr. FRANK. Thank you.

Senator STEVENS. GAO told us at a hearing some time ago on this subject that your use of casual employees is substantially below the 5 percent limit in your labor agreement. I know the Postal Service wanted to have a 10 percent limit. I am surprised to hear that you are below the 5 percent, because it is my judgment that the impact of the use of casuals is one of the offsetting factors to your overall labor costs, and you could increase your overall efficiency if you used casuals more frequently and effectively. Can you tell us what is going to be your policy about casuals?

Mr. FRANK. Yes, sir. It really does represent one of the few areas where we can save in the compensation area. I think that GAO possibly—just possibly—made one of their rare errors, and compared the casuals to the total workforce, but of course, it can only be related to the bargaining employees.

On that basis, we are doing a utilization of casuals of about 4.2 percent.

Senator STEVENS. Higher than they thought?

Mr. FRANK. Yes, sir. The GAO is saying 3; we are saying 4.2, based on like versus like, which is what the labor contract provides.

I don't know how we get to 5, because if you are at 5, then you have a chance to somehow end up over, and then you are in violation of the labor contract. And we do have periodic and seasonal loads and slack, so it is our intent to come as close to 5 as we can for the year, without going over. We are definitely aware of that 5 percent.

Senator STEVENS. Well, I think with the heavy attack that has been made on labor costs and everything I read, that is the problem people point to, that it should put us in a position where maybe in your negotiations you could get a flexible figure so that we can more adequately use casuals on an annual average basis. I hope so, because I do think that that is one of the places where you could really step in and reduce labor costs by building up the work force with temporary workers.

Mr. FRANK. So do we. We pushed hard for 10 percent.

Senator STEVENS. I appreciate that. Thank you very much. I have got to leave, Mr. Chairman. I appreciate your courtesy.

Senator PRYOR. Thank you, Senator Stevens.

I'd like to get back to the FERS issue, Mr. Postmaster General, that Senator Sasser raised, and Senator Stevens alluded to.

I remember in March of 1987 when we had hearings on oversight of the Postal Service, it was then anticipated—I think this has

been covered—that it would cost the Postal Service $1 billion for the employees to shift to the new FERS system.

Now, in fact, I think about $40 million was incurred in costs. So that was $1 billion that was not spent, but when the case of the postal rate increase before the Postal Rate Commission was being discussed, after that billion dollars had not come, all of a sudden another billion dollars came upon us, and they said, "Well, these were unanticipated costs, so we have got to go ahead and raise the postage rates to 25 cents." Otherwise, we would have had only a 24-cent stamp.

Now, what were those unanticipated costs?

Mr. FRANK. They were basically threefold, with a couple of other items that only here would be small. They were threefold. One was that the labor contract settlement and the non-bargaining compensation package were almost $400 million more than had been estimated. Of course, the figure was estimated before the labor negotiation was completed, so it is very hard to come up to a correct figure. If we had estimated a very much higher figure, it could have affected our labor negotiations.

Senator PRYOR. So that is $400 million.

Mr. FRANK. Four hundred.

Senator PRYOR. So we have another $600 million to go.

Mr. FRANK. Yes. The second area that ate into the $1 billion was about $200 million in health benefits. That is, we underestimated the cost of health benefits. There recently was testimony up here by Mrs. Horner of the Office of Personnel Management that that is a problem we shared with everybody else. Our health benefit costs went up, I believe, 31 percent.

Senator PRYOR. How many million is that? We've got $400 million in unanticipated costs. That is, you said, labor negotiations.

Mr. FRANK. Labor, and then health benefits, $200 million.

Senator PRYOR. All right. That is $600 million. Now we have $400 million more to go. Where did that other unanticipated expenditure come from?

Mr. FRANK. The biggest single other part was $290 million of the Postmaster General's cost containment program which he hoped to achieve and on which the submissions were based. And as other testimony has indicated, only about $150 million of that cost saving was achieved, and $212 million was not achieved.

Senator PRYOR. So that cost containment program, I guess, was not very effective, is that correct?

Mr. COPPIE. Well, we saved $149 million, Mr. Chairman.

Senator PRYOR. But, your goal was, I believe——

Mr. COPPIE. I think it is important to keep in mind that it was a unilaterally-initiated cost containment program. It wasn't something that somebody told us to do. It was something that we initiated. Our target was just more ambitious than what we realized.

Senator PRYOR. Well——

Mr. COPPIE [continuing]. I'd like to offer one clarification on the health benefits.

Senator PRYOR. Yes, sir.

Mr. COPPIE. The Postmaster General is quite correct; the health benefit costs were substantially over what we had estimated for the year that we are talking about. But that is a cost that is essentially

imposed on us. It is not one that we can control. We were told by the United States Office of Personnel Management that the increase would be 15 percent. In fact, it came in at 31 percent.

Senator PRYOR. I do thank you for that statement, Mr. Coppie.

Now, back to our cost containment program. I believe that was initiated in 1986, is that correct, or 1987?

Mr. COUGHLIN. January of 1987.

Senator PRYOR. January of 1987. And it did not meet the expected levels that you desired. Is there a new initiative for cost containment within the Postal Service? Are you going to try that again, and if so, what would your goals be?

Mr. COUGHLIN. Well, through our budget process, I would say we do this every year. At about the end of the first quarter in FY 1987 it became clear: (1) that we were facing some heavy cost pressures coming down the line; (2) that we were probably going to be forced to file for rates earlier than we had wanted to, and we had not wanted to much before late summer at best, but our projection said that wasn't really going to hold up.

So we instituted a cost containment program on top of a budget that had already been fixed out there with—I don't recall what the targets were, but I'm sure they were challenging. The similarity to that situation as to what we were faced with this year, the $160 million Budget Reconciliation Act put there is a considerable similarity. In 1987 we asked our people to reduce their expenses one percent from their approved operating plan. They in fact achieved about half of that.

Now, in the rate case, we anticipated getting, as I recall, about $362 million the first year, which was fiscal year 1987, and we expected there to be some carryover effect into 1988. In fact, there was not as much as planned. As Comer Coppie said, we did in fact achieve about $150 million of it.

We took some risks.

Senator PRYOR. Well, I want you to know that I am not condemning you or the Service in any way for attempting cost containment, cost savings, and I applaud that. I just hope that if we initiate a program that it is realistic, that you will keep this Committee advised as to how you are coming along. If it is going to work, tell us it is going to work, and if it is not, I hope that you will be very frank with us. We in the Congress have problems containing costs. We know that those costs run more than we generally schedule. We are certainly having trouble with the budget. I think we can do a better job, all of us.

I am not going to ask a lot of new questions, but I do want to go into the off-budget issue. I'd like to start off by saying that just recently in the Senate, we had a sense of the Senate resolution offered by Senator Stevens relative to taking the postal system off-budget, and I voted for it. The House of Representatives now is considering an off-budget piece of legislation, and I want to be able to support that when it gets over to the Senate. I hope I can support it, and I hope I will support it; I hope I am justified in supporting it.

I'd like to know what you feel, Mr. Postmaster General, as to taking the Postal Service off-budget. What would that mean first to the consumer, to the postal patron, and to that person who does

business with the Postal Service? Would that improve that person's service or his relationship, or what would happen there?

Mr. FRANK. In the private sector—and I don't see why it should be any different here—senior management gets paid for its judgment. The judgments are difficult in an organization of this size. Just to mention two, there is a tension—there must be—between budget consideration and service. Of course, we can make any budget if we give awful service, and we can give the best service in the world and break every budget. So there has to be a lot of judgment. And the same is true for long-term considerations as well as short.

Clearly, we could save a few million dollars a year by not having research and development, and the impact wouldn't show up for two years, but then it would be horrendous.

So, this on-budget situation robs us of any ability to exercise judgment.

We have heard a lot of discussions here today about window service, and I know that closing windows are annoying to the Senators and to everybody else, ourselves included. But much more important than the window closing is the real estate program. Our average facility is 32 years old in this system. It is a multi-floor operation. One of the consequences of automation is that we need a lot of square feet and a single-floor layout. We have put on hold at best, and probably killed at worst, some 750 real estate projects around the country which we can never catch up with—even if we get the money after fiscal year 1989, because there will be pieces of property no longer available, construction costs will be higher, and density and zoning restrictions may be imposed in many communities.

To ask us to be efficient, to hold down rate increases and to give good service when we don't have any discretion over how we manage our expenses and our capital costs, not to mention revenues, it seems to me that we are being—and I know everybody is tired of the phrase, although I have never used it—we are being micro-managed.

Senator PRYOR. Mr. Frank, also in the House legislation as I understand it, contains an increase in debt authority of from $10 billion to $30 billion, I believe it is. Does additional debt mean ultimately additional postage increase? Does that equate? Does that link together, or is that de-linked?

Mr. FRANK. No, I wouldn't say so. Of course it carries with it an interest expense, but we invest in the capital items because they show a good return. So it will make us more efficient. The amount that we suggested is exactly what the $10 billion was when the Act was written, and it is just adjusted for inflation. Many people suggested that we ask for more, but we just held it to the rate of inflation.

Senator PRYOR. Let's assume we adjourn October the 8th; that's when our leadership says the House and Senate will adjourn. Let's say by that time we will have passed the necessary legislation to take the Postal Service off-budget. This is all assumption. Then let's say one year from October 8th, let's go into 1989, what do you think the indebtedness of the Postal Service would be by that period of time if you were off-budget?

Mr. FRANK. Well, we are anticipating that fiscal 1989 would not be affected by any change in legislation. We are assuming that off-budget legislation triggers in on October 1, 1989.

Senator PRYOR. Well, let's say 1990.

Mr. FRANK. Yes, sir.

Senator PRYOR. It would be triggered by then. Excuse me. I believe the House bill does say October 1, 1989.

Mr. COPPIE. Mr. Chairman, at the end of the current fiscal year, we will have about $6 billion in debt outstanding.

Senator PRYOR. Six billion in debt.

Mr. COPPIE. About $6 billion in debt outstanding. Assuming that we borrow $1.5 billion net of repayments in 1989, which is the cap, the maximum amount we can borrow, then we would be at about $7.5 billion.

Senator PRYOR. You talk about freedom and the ability to not be micro-managed, do you feel you'd like to be out of the grasp and away from the claws of Office of Management and Budget? Does that give you a great deal of worry, and do they give you concerns all the time and give you heartache and heart pain?

Mr. FRANK. Well, there was a bill that was passed, the Postal Reorganization Act of 1970, which provided that we go off-budget, and we have been off-budget for 15 years until we were put on the budget, I guess, in late 1985. We are not asking for anything remarkable or revolutionary. We are just going back to the original intent of the Act.

There would be ample oversight. There always has been. I guess we have had something like 450 oversight hearings in the 15 years that we were off-budget. I think that's the essence of it. We are being asked—Senator Sasser spoke to it—you almost have to be a political scientist, sir, to understand why rates are going up and service is going down. This is very difficult to explain.

Senator PRYOR. Mr. Coppie, did you want to add to that?

Mr. COPPIE. Let me just comment on the off-budget issue in relationship to reporting of information. It is important to keep in mind, Mr. Chairman, that when we go off-budget, the same information that we provide to the Administration and the Congress on-budget is also provided off-budget. What changes is where that information is reported. When we are on-budget, we are part of the total Federal Government budget; we are part of the total budget aggregates. If we are in a positive outlay situation, we impact on the Federal deficit. When we are off-budget, that same information is available in a supplement document to the budget; we no longer are in the aggregates, and we are no longer impacting on the Federal deficit, and obviously, Mr. Chairman, as you know, we are not a relevant factor as far as the deficit is concerned anyway.

Senator PRYOR. Mr. Coughlin, do you have any final comments, or Mr. Cox?

Mr. COUGHLIN. I guess the only thing I would add to supplement what the Postmaster General said is that we are going to try, and we are optimistic about being able to restore some of the service that was cut later this summer, and as soon as we are assured that we can, we will.

Senator PRYOR. Mr. Postmaster General, we appreciate you coming. I wonder if you have any further comments to make?

Mr. FRANK. Just to thank you, Mr. Chairman. In the 2½ months I have been here, I have been deeply impressed by the amount of interest and knowledge of the Postal Service by the Senate and the House, particularly you and your staff. There is very little explaining that we have to do. People monitor us, and we should be monitored.

But I do find a Postal Service that is somewhat beleaguered by having had four chief executives in four years, by being drastically cut back suddenly in December of last year, by the decisions and recommendations on pricing in which we have little or no involvement. It is a difficult situation, and we have to keep our eye on the main thing, which is to provide universal postal service to all Americans. I think we are doing that; I think we are doing it better and cheaper than any other country. But it really isn't good enough. We can do more, and I'm sure that we will.

Thank you very much.

Senator PRYOR. Mr. Frank, you came from the private sector, I believe, from the savings and loan industry.

Mr. FRANK. Yes, sir.

Senator PRYOR. So you have come from the savings and loan industry to the Postal Service, from the frying pan to the skillet.

Mr. FRANK. That's one way to look at it.

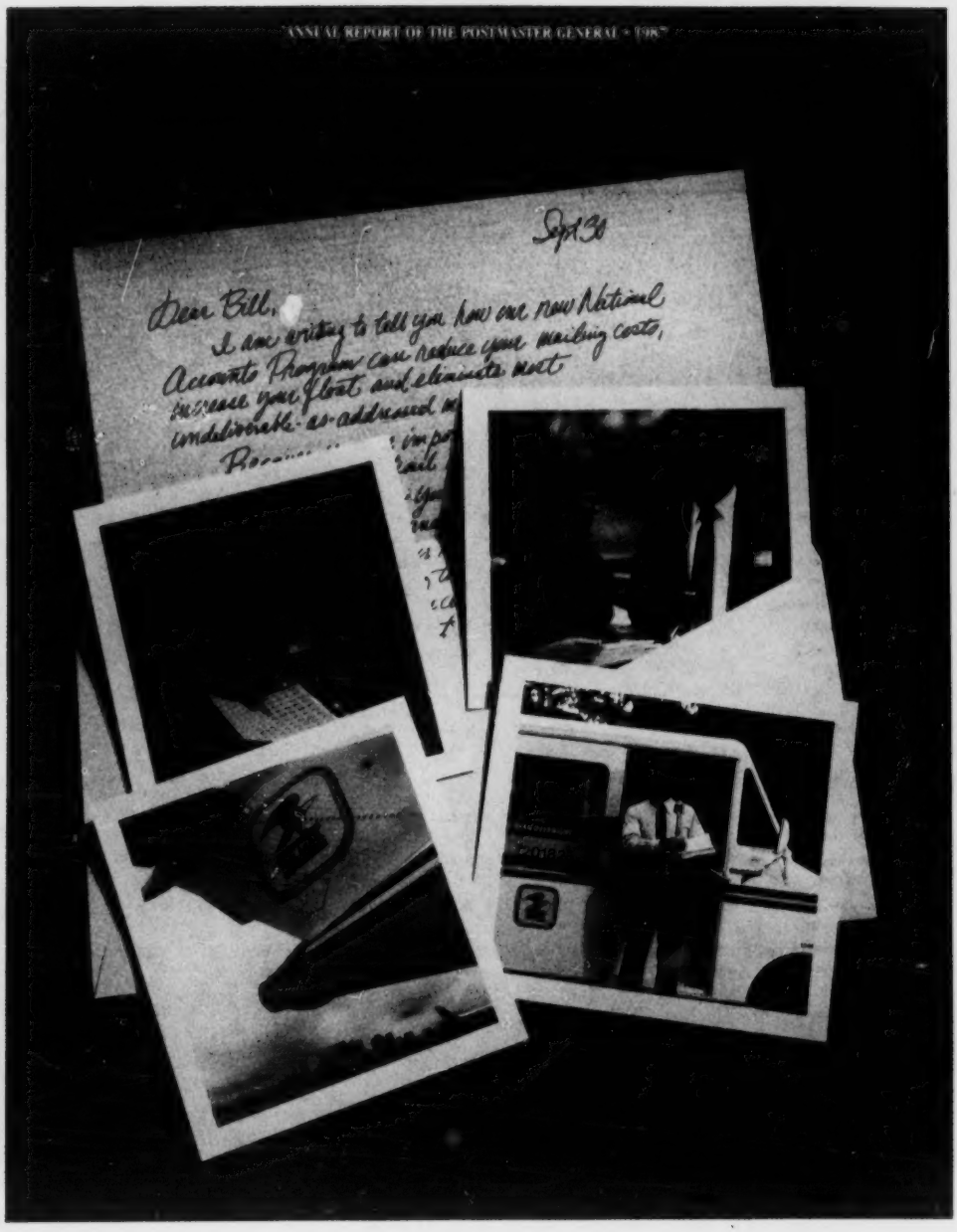
Senator PRYOR. We welcome you; we welcome you as our new Postmaster General. You have done a fine job this afternoon. And I would like to stress, if I might, I don't think there is anything more important than the challenge you have of getting your people, not only yourself—and I know your time limits—but your people here in this area out into the country to see where the real problems are, to see what we hear on a daily basis, and what I know many of your people hear. I don't know what of those concerns are actually filtered up to you—I hope as many as possible, because we are in business for one purpose, and that is to serve the people, to serve this country, and I know that you will take that upon yourself as one of the challenges of your new position.

The hearing is concluded. Thank you, sir.

Mr. FRANK. Thank you, Senator.

[Whereupon, at 3:40 p.m., the Subcommittee was adjourned.]

# APPENDIX


ANNUAL REPORT OF THE POSTMASTER GENERAL • 1985
Sept. 30
Dear Bill,
I am writing to tell you how our new National
Accounts Program can reduce your mailing costs,
increase your float and eliminate most
undeliverable-as-addressed

## FINANCIAL AND OPERATING HIGHLIGHTS

| | Year Ended Sept. 30, 1987 | Year Ended Sept. 30, 1986 | Year Ended Sept. 30, 1985 | Year Ended Sept. 30, 1984 | Year Ended Sept. 30, 1983 |
|---|---|---|---|---|---|
| Pieces of mail (millions) | 155,931 | 147,376 | 140,098 | 131,545 | 119,381 |
| Percent change | 4.4 | 5.2 | 6.5 | 10.2 | 4.7 |
| | | | (dollars in millions) | | |
| Operating revenue | $31,528 | $30,102 | $27,736 | $25,314 | $23,582 |
| Percent change | 4.7 | 8.5 | 9.6 | 7.3 | 4.3 |
| Public service appropriation | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 |
| Percent change | — | — | — | — | −100.0 |
| Revenue forgone appropriation | $ 650 | $ 716 | $ 970 | $ 879 | $ 789 |
| Percent change | −9.2 | −26.2 | 10.3 | 11.4 | 15.6 |
| Total appropriations | $ 650 | $ 716 | $ 970 | $ 879 | $ 789 |
| Percent change | −9.2 | −26.2 | 10.3 | 11.4 | 11.6 |
| Total operating expenses | $32,520 | $30,717 | $29,207 | $26,357 | $24,083 |
| Percent change | 5.9 | 5.2 | 10.8 | 9.4 | 5.5 |
| Net income (loss) | ($ 223) | $ 305 | ($ 251) | $ 117 | $ 616 |
| Percent change | — | — | — | −81.0 | −23.1 |
| Fixed assets (net of depreciation) | $ 6,628 | $ 5,588 | $ 5,065 | $ 4,813 | $ 4,462 |
| Percent change | 18.6 | 10.3 | 5.2 | 7.9 | 8.0 |
| Equity (deficiency) | $ 138 | $ 362 | $ 58 | $ 311 | $ 112 |
| Percent change | −61.8 | 520 | −81.2 | 178.0 | — |
| | | | (in units indicated) | | |
| U.S. resident population January 1 (millions) | 242.2 | 239.9 | 237.8 | 234.9 | 233.3 |
| Percent change | 0.9 | 0.9 | 1.2 | 0.7 | 1.0 |
| Pieces of mail per capita | 635 | 614 | 589 | 560 | 512 |
| Percent change | 3.5 | 4.2 | 5.2 | 9.4 | 3.6 |
| Operating revenue per capita | $ 130.16 | $ 125.46 | $ 116.64 | $ 107.77 | $ 101.08 |
| Percent change | 3.7 | 7.6 | 8.2 | 6.6 | 3.3 |
| Accrued cost per piece of mail | 21.13¢ | 20.84¢ | 20.85¢ | 20.04¢ | 20.17¢ |
| Percent change | 1.4 | — | 4.0 | −0.6 | 0.8 |
| Operating revenue per piece of mail | 20.48¢ | 20.43¢ | 19.80¢ | 19.24¢ | 19.75¢ |
| Percent change | 0.2 | 3.2 | 2.9 | −2.6 | −0.4 |
| Net income (loss) per piece of mail | (0.14¢) | 0.21¢ | (0.18¢) | 0.09¢ | 0.52¢ |
| Percent change | — | — | — | −82.7 | −25.7 |
| Employees | 790,557 | 784,557 | 744,490 | 702,123 | 678,845 |
| Percent change | 0.8 | 5.4 | 6.0 | 3.4 | 0.6 |

*Preston R. Tisch*
*Postmaster General of the United States*

**TO THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE:**

It is at least unusual to preface a company's annual report for the prior year with a message about things happening in the present fiscal year. These are, however, very unusual times for the Postal Service. Circumstances beyond our control are certain to have a very significant effect on the health and operations of our business in FY 1988 and FY 1989.

As the Postal Service was completing the first quarter of fiscal 1988, the Congress came to grips with the need to reduce the national deficit by approving complex omnibus legislation that will seriously impact the Postal Service. Although we do not, as a revenue-producing, self-supporting agency, contribute in any meaningful way to the national deficit, we were included.

Under the Budget Reconciliation Act of 1987, we are required to reduce our outlays over the next 20 months by $1.24 billion, a difficult task under the best of circumstances. Unfortunately, by dictating where we must find the money, the Act limits our ability to accomplish this objective without serious adjustments in the way we run our business.

The Postal Service has been forced to cancel or postpone virtually all new facility construction and defer purchasing much of the new equipment needed to improve our productivity and the efficiency with which we deliver service to our customers. Significant adjustments, though not as serious as was at first feared, will also be necessary in those operating areas of our business with a direct bearing on our service performance.

Our marketing and operating strategies for 1987—and beyond—had clearly focused our resources on improving the services we provide to our customers. We are concerned now that in making the required adjustments, we not undo the significant progress made in 1987 and detailed in this annual report. We will do everything possible to see that this does not happen.

In an effort to avoid a repeat of these disruptive adjustments the next time the deficit is dealt with, we have proposed that the Postal Service be returned to the self-funding budget status it held from 1976 until 1985. We believe that this change will allow us to continue to account for our capital commitments in a businesslike manner, without distorting our impact on the federal deficit. Judging from the conference committee's report, we believe the Congress will seriously consider the difficult challenge these capital and operating budget adjustments present to the nation's mail network.

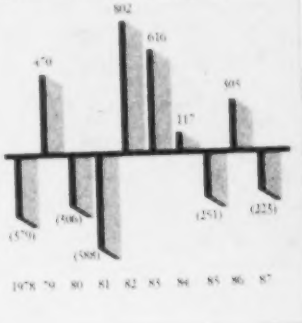
We hope to demonstrate that the Postal Service must be responsible for its own budget destiny, a keystone principle of the Postal Reorganization Act of 1970.

Despite the present budgetary problems, the Postal Service is fundamentally sound today. Its men and women remain committed to its long tradition of public service, but they recognize that the competitive environment in which the Postal Service finds itself requires that it work harder and smarter to win and to keep its customers.

To remain competitive, the Postal Service must strive constantly to meet its charter to provide one of this nation's most fundamental public services efficiently and effectively. In that regard, I believe that Fiscal Year 1987 can be viewed as a highly successful year.

Our major business indicators were positive. Mail volume continued its pattern of healthy growth. The 155.9 billion pieces of mail we collected, processed and delivered was the highest volume in our history. Postal revenues also

**Net Income (Loss) (dollars in millions)**




*Postal finances, viewed in the long term, indicate USPS's ability to break even over time. In the past decade, surpluses in five years and deficits in the remaining five years have resulted in an overall surplus of approximately $500 million, which is a fraction of the Postal Service's total revenue for the period.*



90-835 0 - 89 - 3

reached a record level of $32.5 billion. Although we closed the fiscal year with a loss of $224 million, that loss was less than seven tenths of one percent of total revenue.

The Postal Service has produced surpluses in five of the last ten years and moderate losses in five. Over the ten-year period, we've been approximately $560 million in the black—a performance remarkably close to the requirement that we break even over time.

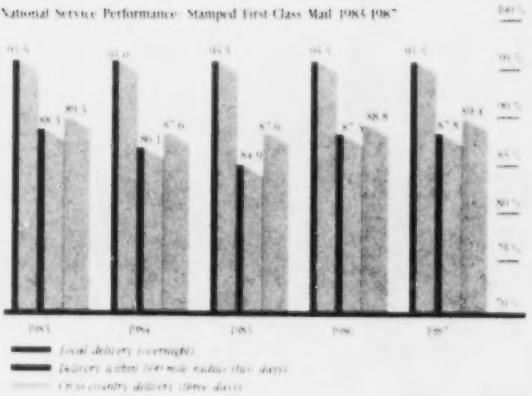
Judging the performance of FY 1987 by these raw numbers alone, however, would belie the significance of the marked progress the Postal Service made throughout the year. Our managers at the headquarters, regional and field levels demonstrated time and again the flexibility and capability needed to operate with the best disciplines of business and government to provide mail service that is the best in the world today.

Historically high standards for service performance were met or exceeded in most of our measured categories and, as I indicated earlier, efforts were initiated to work more closely with major customers and consumers so that the Postal Service is today better able to understand and anticipate their needs.

Further refinements in our management structure were made during the year to support this commitment to customer satisfaction. Our marketing functions, for example, were realigned to divide our available resources to each segment of our customer base and to help identify opportunities for increasing the Postal Service's capacity for internal coordination among functional areas. Our National Accounts team, supported by senior managers, devoted its attention to major customers. The Commercial Accounts Division worked closely with medium- and smaller-volume customers. The Philatelic and Retail Services Department focused on the needs of stamp collectors and the individual consumers who use our lobbies. The Consumer Advocate's Office also focused on the needs of the consumer, and our delivery and retail functions committed record resources to bringing state-of-the-art retail counter and vending equipment to our lobbies.

We established a dedicated air transportation hub for Express Mail service and Priority Mail, a key factor in our ongoing programs to improve service performance for these important postal products. This hub was one element in stopping the slide in our Express Mail revenue.

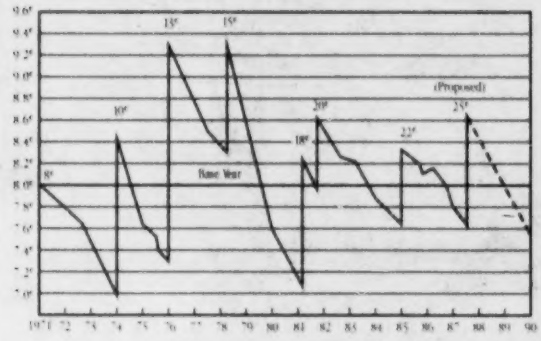
National Service Performance: Stamped First Class Mail 1983-1987




Our financial and planning functions concentrated on improving our ability to anticipate and meet both the long- and short-term resource requirements of the system. These efforts were especially important during FY 1987 because the developing financial trends led to the initiation of a vigorous cost management program which succeeded in paring costs by approximately $149 million without a significant negative impact on service performance. Without these aggressive efforts to restrain our costs, our year-end losses would have been more severe.

More importantly, the experience gained during FY 1987 will help to make cost containment a permanent part of the postal culture, which bodes well for the future financial integrity of the Postal Service and the continued pattern of relative rate stability for its customers. This experience will be increasingly important in the present fiscal year because of the mandated reductions in our operating and capital budgets previously discussed and our prior commitment to absorb a considerable portion of volume growth through increased productivity.

**Real Price of a First-Class Stamp** *Price deflated by Consumer Price Index*




*Measured against the effects of inflation, the price of First-Class postage has remained relatively stable since Postal Reorganization.*

The Postal Service, of course, as part of its regular cycle, has planned for a general increase in postage rates during FY 1988. The revenues that can be expected from those adjustments, however, will not alleviate our need to manage every dollar prudently. We will be more than half way through our fiscal year before new rates can be implemented, and it is unlikely that new revenues generated by these rate adjustments will fully offset the impacts of the budget reductions and general increases in costs we are experiencing.

All of this puts added premium on programs tied to real, long-term increases in our productivity. Fortunately, in FY 1987 the Postal Service put its program to automate the processing of mail firmly back on track. Stalled as the year began, the acquisition of multiline optical character recognition (OCR) equipment was resumed. This equipment is an integral part of an automated system which processes letter mail from the time it enters a postal facility to the time it enters the hands of a letter carrier. The acquisition of this equipment will not be sacrificed in the present efforts to pare our capital investment programs. Deployment of multiline OCRs will commence in February and continue through 1989.

The decision to acquire multiline technology, however, was not a stand alone proposition. The Postal Service's ZIP + 4 coding sales effort was further refined to emphasize reducing the combined costs that the Postal Service and its customers pay for processing and delivering the mail. The value of customer-applied ZIP + 4 codes was recognized in the Postal Service's rate filing. Expanded customer options, including incentives for customer-applied ZIP + 4 bar codes, were included in those rate proposals. It can be expected that those customers for whom ZIP + 4 rate incentives make economic sense will continue to apply the expanded code to their letter mail. At the same time, the conversion of our OCRs to multiline capacity will allow the Postal Service to achieve the benefits of automated sorting to the ZIP + 4 level on mail that does not carry the additional four digits.

In addition, the Postal Service continued to make capital investments in supporting mail processing equipment—both mechanized and automated—throughout the year. The Postal Service also continued to offer a range of other incentive programs, such as those associated with presorting of mail.

Technology, of course, will not move mail of and by itself. The Postal Service continues to rely on the efforts of its employees, and FY 1987 was not without achievement in the human resources area.

A Training and Development Department was created within the Human Resources Group to bring more resources to the training of managers and other employees so that they will work effectively in an environment increasingly affected by advances in information and electronic technology. This new department, working in concert with the Employee Relations and Labor Relations Departments, will assure that the Postal Service will have appropriate human resource strategies in place to support its growing commitment to technology, cost containment and customer-focused service initiatives.

The accords reached with the Mail Handlers Division of the Laborers International Union of North America, the American Postal Workers Union and the National Association of Letter Carriers were fair to the employees, to the Postal Service and to postal customers. Additionally, settlement on a new contract was reached with the Postal Service's fourth major union, the National Rural Letter Carriers' Association, in January 1988. The terms of this settlement followed the pattern previously reached with the other unions.

The removal of the acrimony that has marred

*Personal contact is a major part of the Postal Service's efforts to better understand its customers' needs. Postmaster General Preston R. Tisch made more than 100 customer visits during FY 1987, here he discusses USA Today's mailing programs with publisher Cathleen Black.*

previous collective bargaining efforts was significant, as all of the parties to these negotiations recognized that contention, particularly after the conclusion of negotiations, would do little to serve the interests of the Postal Service or its customers. The Postal Service, as a result, is poised to focus attention on resolving remaining labor-management issues affirmatively and, in the process, has the opportunity to reduce the numbers of grievances and EEO complaints that erode its effectiveness as a service enterprise.

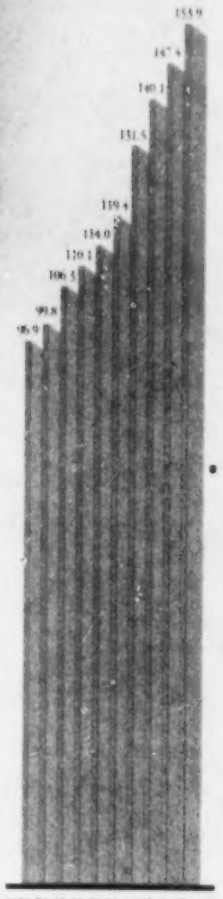
Progress in all of these critical areas of the postal business is discussed in greater detail in the narrative of this annual report. In offering this brief overview, I admit to a sense of personal accomplishment which stems from the collective achievements of the men and women of the U.S. Postal Service.

Based on the four decades of business life that preceded my tenure as Postmaster General, I believe that good companies are stable over time, are capable of responding positively to investments in technology and other modern business tools and have at their disposal the human resources required to use those tools to provide their customers with superior service.

That is a test that I believe the United States Postal Service passes with flying colors. Budget pressures notwithstanding, the Postal Service today is being better equipped than at any time in its history to meet the changing demands of the marketplace. These efforts must continue, and as we become better masters of the business principles driving the service sector of our economy, the men and women who comprise the nation's largest civilian work force will continue to build on a tradition of public service as old as our nation.

Preston R. Tisch
Postmaster General
of the United States
February 1988

**Mail Volume 1978-1987**
(pieces in billions)



**U.S. POSTAL SERVICE**
**FISCAL YEAR 1987**
**ANNUAL REPORT**

As will be the case in FY 1988 and beyond, the challenges facing the Postal Service during Fiscal Year 1987 were obvious. The organization's management structure had just been realigned to focus more local resources on service to the customer; costs, as expected, were rising; mail volume was increasing; the need to increase productivity was apparent; and contract negotiations with the largest postal unions were scheduled.

To respond to these critical business issues, the Postal Service focused on four primary objectives: improving service and boosting customer acceptance of the Postal Service; containing costs and making investments to foster greater future financial stability; resuming its automation program to improve long-term productivity; and acting to promote increased harmony between labor and management.

During the year, as the 74 field divisions created during the previous year's management realignment overcame the growing pains associated with structural change, local managers were given greater autonomy to work more closely with customers to resolve problems and find opportunities for better service. Employees were challenged to know and serve their customers better. Headquarters and Regional managers supported the new Divisions by identifying and resolving transportation, service, procurement and other operating issues of broader scope.

The coordination of postal resources at all levels led to significant achievements in all four areas of its principal agenda.

**SERVICE**

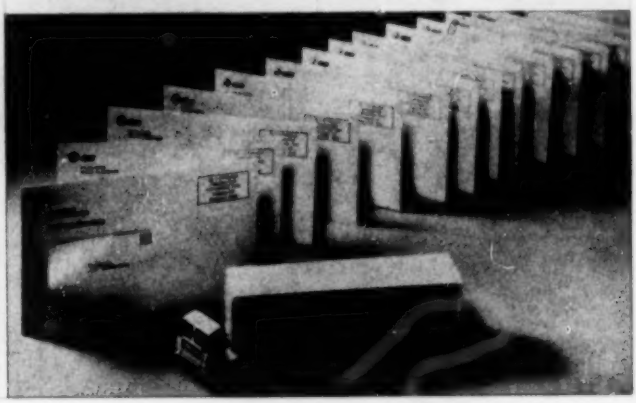
The most ambitious and visible results in improving service were an unprecedented series of initiatives undertaken during the year to help reinforce the Postal Service's presence as a service company.

These initiatives were the results of a hard look at the competitive environment in which the Postal Service does business and its decision to take substantive steps to increase the effectiveness of the products and services purchased by postal customers. They occurred in two forms: one, a dynamic and forward-thinking refocusing of the Postal Service's marketing programs; two, a series of specific operations programs intended to improve the reliability and convenience of postal products and services.

Capitalizing on the establishment of a marketing organization within the newly-formed field divisions, the restructuring of the headquarters marketing organization was concluded. The Marketing and Communications Group began allocating resources to areas of the group dealing with discrete customer segments in Marketing, International Postal Affairs, Philatelic Affairs, Consumer Affairs and Communications. Within the Marketing function, the National Accounts Division was strengthened to concentrate on corporate level servicing and selling to the Postal Service's largest commercial customers. This effort

*Mail order specialist Talbots is among USPS customers taking advantage of the new national change of address system. Through the use of NCOA, Talbots found new addresses of old customers, eliminated duplicate mailings and reduced undeliverable mail.*

*Close cooperation between AT-T and a Postal service national account representative is anticipated to save AR-T well over $15 million a year through the use of pre-barcoding and metered payment. AT-T will send and receive enough mail to fill more than 4000 large semi-trailers annually.*



was supported by the Postmaster General and other senior managers who made more than 100 in-person visits to corporate CEOs to discuss ways that the Postal Service and national mailers can work more closely together. In addition, the Commercial Accounts Division developed action programs to maintain personal contact among postal customer account representatives and approximately 60,000 additional major business mailers outside the scope of National Accounts.

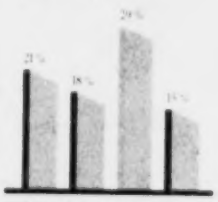
The results were positive. More than one billion additional pieces of First-Class Mail carried the expanded ZIP + 4 code this year. Numerous service problems were identified and postal operations people began working directly with key segments of the industry on corrective solutions. The Postal Service stemmed the slide in its Express Mail business as volume grew by three percent. It also recovered some lost parcel volume after meetings with several customers.

Speaking before National Postal Forum East, one of five Regional Postal Forums held throughout the country during the year, Postmaster General Tisch acknowledged that these results were good for the Postal Service. He added, however, "The results of these meetings—from the customer's perspective—present an even more impressive picture. A restaurant chain in the Midwest is saving $50,000 a year by giving us their Express Mail business. A national newspaper will tap into our new reduced rates and get the added convenience of Express Mail International Service for communications with its foreign bureaus. A major catalog mailer sat down with his postal Division managers and worked out a plan to take advantage of previously overlooked incentive programs. The results? Savings of about $3 million a year. A major bank took a second look at its stalled ZIP + 4 conversion and turned those four extra digits into seven-digit savings in its postage bill—more than $1 million, in fact. The list could go on and on."

Throughout the year, marketing activities included extensive market research to determine customers' needs and expectations, to assess opportunities to improve service, and to test results of various programs implemented by the Postal Service.

*Time is money in the credit card business, and American Express is among the firms testing specialized applications of Express Mail service to meet its needs. AMEX's test consolidates records of charge for immediate shipment to a processing center. The economy of Express Mail cuts the firm's mailing costs, and quick turnaround and consistent on-time performance improves its service relationship with participating banks.*

**Commercial Customer Segmentation by Volume**

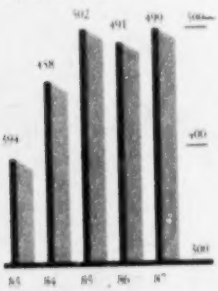



200 National Accounts
4,000 Key Accounts
60,000 Major Mailers
5,000,000 Regional Mailers

*Business mail accounts for 85% of all originating mail. Of the remaining 15% approximately 11% is response to business and 4% is household to household.*

*Inset: When Sunday delivery of parcel information and results and reports for its national chain of restaurants was on the retailer's menu, only Express Mail service fit the bill. Only Express Mail delivers weekends and holidays without additional charges.*

**Domestic Express Mail Revenue**
(dollars in millions)




Throughout the year, operational program support was provided for new marketing initiatives. Nowhere was this support more visible than in the efforts to restore the Postal Service's Express Mail Overnight Service and Priority Mail offerings to positions of leadership in the expedited shipping marketplace.

The Postal Service, which pioneered the development of expedited mail services, moved to increase the reliability of Express Mail Service and Priority Mail. It signed a contract for a dedicated hub and spoke air transportation system. Operating from a hub at Terre Haute, Indiana, the Postal Service established a new network linking over 45 cities through 25 major domestic airports.

The greater flexibility offered by the hub allowed the Postal Service to implement a new "earlier bird" delivery of Express Mail packages. Most deliveries are now made by noon, hours ahead of the 5 p.m. service standard for Express Mail Overnight Service. The reliability of the new network was demonstrated in the fourth quarter of the year, when Express Mail on-time delivery performance was 97.4 percent, a new record for a single quarter. Topping that, in the final accounting period of the year (August 29 to September 25), was an all-time performance record for any four-week period of 97.8 percent.

*Airplanes flying the postal colors (like this one at Boston's Logan Airport) became visible symbols of the increased reliability that a new hub-and-spoke transportation operation is bringing to the Postal Service's Express Mail service and Priority Mail products.*

The commencement of morning delivery for Express Mail Service was one of a series of convenience and service enhancements undertaken or tested during the year. The network of collection boxes was expanded; credit card payment was tested in five cities; and plans were undertaken to provide for a tracking/inquiry service for Express Mail shipments. Simplified and innovative rate structures for both Express Mail Service and Priority Mail were included in the Postal Service's general rate filing in May. New Express Mail International rates were designed and will allow customers to reach 69 foreign countries for as little as $15 to $18.

*When McDonald's launched a multi-mail effort to bring salads to its stores across the country, it chose direct mail to get the word out. Some 35 million American households received mailed coupon packets during June, which added to the crop growth in third-class mail volume during the year.*

*Among the options customers receive when selecting Express Mail service for their overnight delivery is innovative packaging — envelopes, boxes and tubes — provided free of charge.*

The introduction of a new Express Mail Military Service offers expedited service to military personnel stationed in Europe, Panama and the Pacific area and to their families and other correspondents.

These product enhancements follow earlier postal innovations, including a waiver option to allow delivery without the addressee's signature; the addition of Express Mail C.O.D. service; and the provision of colorful containers including an Overnighter envelope, tube and box, and the 2-Pound Pak.

Other important segments of the Postal Service's customer base also received considerable attention during FY 1987. Numerous initiatives were introduced into the international mailing arena.

The International Priority Airmail network was expanded from 90 to 96 market areas. The International Surface Airlift program was redesigned to provide simpler customer access through an acceptance network which grew from 10 to 56 U.S. cities. Express Mail International Service was expanded to 15 additional countries. And, INTELPOST continued to provide customers with rapid facsimile transmission services to 33 countries, including China, Cyprus, Iceland, Israel, Papua New Guinea and Singapore, which were added to the network during the year.

During FY 1987, the Postal Service also became a participant in the European Overnight System, a 12-nation network designed to improve international expedited mail service. Many of the administrations involved in the EOS, which operates from a permanent hub in Brussels, also agreed to develop a new business letter service to meet the needs of business mailers. The Postal Service's International Priority Airmail service will be part of this new service offering.

The Postal Service participated in bilateral efforts to improve service with the postal administrations of Australia, Canada and Mexico. The Postal Service also participated in international mail transit time surveys conducted by the Universal Postal Union. And, preparations for the 1989 Congress of the Universal Postal Union, to be held in Washington, D.C., moved forward with the establishment of a headquarters UPU operations office.

*The International Priority Airmail service network was expanded to allow mailers to reach most foreign countries from U.S. markets.*

*Among the most popular postage stamps issued in Fiscal Year 1987 were the North American Wildlife stamps, the Constitutional Bicentennial series, the commemorative native son/Blue booklet and the special occasions booklet.*

The Philatelic and Retail Services Department shepherded the introduction of a new consumer convenience program - Stamps by Phone - which is being tested in several U.S. cities. The new service, which could be introduced nationally in FY 1988, allows customers to order stamps over the telephone and pay for them with credit cards.

Sales of philatelic items amounted to $160.8 million, making FY 1987's stamps program one of the most profitable in postal history.

To meet the needs of philatelists and general consumers, the Postal Service released 44 stamp and stationery issues during the year, among them the popular 50 stamp panes of North American Wildlife stamps. A booklet of five stamps bearing words of the preamble to the Constitution, a commemorative stamp honoring its signing, three statehood stamps and a postal card honoring the Constitutional Convention began the Constitution Anniversary series. A unique philatelic item introduced in FY 1987 was a booklet of special occasion stamps, issued in response to numerous requests by customers. Following on the high acceptance of the Love Stamps, the new stamps featured messages suitable for Mother's Day, Father's Day, congratulatory occasions and other special events.

The growing interest in philatelic cancellations resulted in the approval of 1,900 separate cancellations for more than 800 communities. Special postmarks were offered at 10 National Parks in connection with the sale of the Wildlife stamps. Unique cancellations also celebrated various events of the Tenth Pan American games held in Indianapolis, Indiana.

Some product innovations undertaken during the year were more technical in scope. A change in printing process, from intaglio to gravure, began with the new 22 cent Flag Stamp. The change is expected to reduce stamp production costs by $1 million annually. Also, by modifying booklet production machines, the Postal Service increased the commemorative booklet size from 10 stamps to 20 to make larger quantities of these stamps available in postal vending machines.

Tests began to print stamps on prephosphored paper to improve their appearance and to combat illegal stamp washing. Because traditional phosphorus coatings reduced the brilliance of printing inks, the new method will increase the stamps'

*Stamps by Phone, offered experimentally in nine cities in FY 1987, received enthusiastic response from customers and is likely to be expanded nationwide in FY 1988. Minimum orders: $11 plus $2 service charge. For First Class and Express Mail stamps are paid for by major credit cards.*

*More than 300 post offices installed new mail boxes during the year to accommodate their customers. Shown, the 14,000 member of the Quick Service Unit, the individual employee in the post office nearest to you.*

beauty and will permit cancellation ink to penetrate more deeply, which will help to foil efforts to wash and reseal used stamps for use as postage.

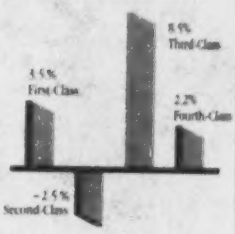
The needs of individual consumers and small businesses also received considerable attention during FY 1987. More than 900 additional post offices adjusted their service hours to suit the needs of their customers, bringing the total number of offices across the country which have added this convenience to 5,500. More state-of-the-art automation is being used for postal retail window transactions than ever before, and although the present restraints on new capital commitments are likely to slow some of these programs, modern vending equipment will continue to be added to postal lobbies and off-site retail centers.

To improve responsiveness to customer questions and reduce clerical costs, an automated telephone information service, the Postal Answer Line, was tested during the year. Test data revealed that 87 percent of the customers had their questions fully or partially answered through this new service. The Postal Answer Line system is scheduled for national expansion, although those plans, too, are being reevaluated in light of budget pressures during FY 1988.

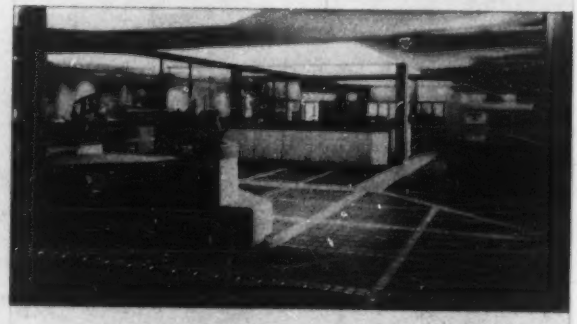
Protection of the mail system and postal consumers was the Postal Inspection Service's contribution to the success of FY 1987. The Inspection Service completed 1,909 mail fraud investigations and obtained 1,206 convictions. It initiated almost 4,500 civil administrative actions and discontinuances against mailers who misrepresented their products or services through the mails, arrested 242 individuals for receiving or sending child pornography through the mails, and arrested 547 persons for trafficking in narcotics or controlled substances. Postal Inspectors also investigated 114 robberies, 645 burglaries, 950 assaults, 1,340 mail thefts from vehicles or collection boxes and made 5,218 arrests for all theft of mail by non-postal persons. In addition, inspectors investigated and prosecuted 5,942 cases in which employees or contractors were involved in mail theft, financial crime, Workers' Compensation fraud and drug-related activities.

Overall, service performance for the year remained high. Overnight Stamped First-Class Mail equaled its FY 1986 performance of 96% delivery within standards. Overnight delivery of metered First-Class Mail was achieved 92.5% in FY 1987, compared to 91.5% in FY 1986. Other major service categories remained at historic high levels, continuing a trend begun in FY 1986.

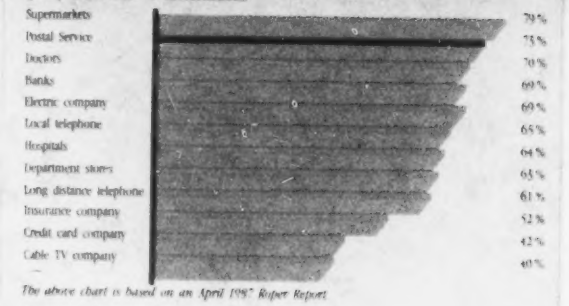
**Growth in Volume by Class FY 1987**




*(Below:) This demonstration lobby design emphasizes better service and a more pleasing environment for postal customers. Evaluations of this and other designs led to guidelines for architects which will promote the use of future cost-effective lobby features.*



**Quality of Services - % Excellent/Good**




*The above chart is based on an April 1987 Roper Report.*

*(Right:) Customers continue to give the Postal service high marks for the quality of services provided, compared to those of other service companies. USPS is now only "near or at the top" in comparisons of this type.*

## FINANCES

In May 1987, the Postal Service proposed general postage rate adjustments in response to rising postal costs, including a 25-cent First Class stamp and overall increases for all classes of mail averaging 16 percent. In March 1988, the Postal Rate Commission will issue a recommended decision on the new rates.

The Postal Service incurred a $223 million loss in FY 1987, compared with net income of $305 million in Fiscal 1986. Over the past 10 years, the Postal Service has recorded five surpluses and five losses. Total revenues have exceeded expenses by approximately $560 million for that decade. The FY 1987 loss was less than one percent of total revenue, and was $41 million lower than the projected loss of $264 million anticipated at the beginning of the fiscal year.

The Federal Employees Retirement System (FERS) implemented during the year resulted in new costs of $260 million. Health benefit premiums jumped approximately 25 percent in January 1987, and total health benefit costs rose $168 million over FY 1986. New health benefit costs for postal employees who retired after 1986 totaled $10.5 million.

Cost-containment efforts rigorously applied during the year reduced expenditures by approximately $149 million to help offset some of the increase in these operating costs.

Total factor productivity (TFP) in the Postal Service increased 0.1 percent in FY 1987. This methodology, which has been used since 1985, takes into account the share of mail volume presorted by mailers, increased use of automated and mechanized equipment, facilities development and the growing postal delivery network in measuring postal efficiency.

From 1972-1986, the Postal Service's average improvement in total factor productivity was 0.5 percent per year, essentially the same rate of improvement noted for the non-farm sector of the private economy for the period in a similar measure published by the Bureau of Labor Statistics.

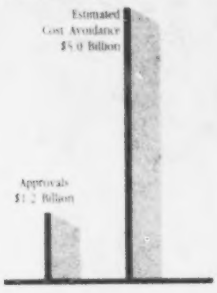
Recognizing that modernizing postal operations is critical to keeping pace with volume growth and customers' service expectations, the Postal Service made FY 1987 capital commitments of $2.18 billion.

Some $440 million was committed to mail processing equipment, a four-fold increase over FY 1986. Investment in optical character readers (OCRs) and bar code sorters (BCSs) continued. While mail is still sorted manually and with mechanized multi-position letter sorting machines, the evolutionary process of automating mail processing is accelerating. In addition to these improvements, the Postal Service also continued modernization of its vehicle fleet. During FY 1987, the Postal Service accepted delivery of more than 5,000 new Long Life Vehicles (LLVs), the first of 99,150 planned for delivery over the next few years. Long-term savings of $6 billion are projected from the LLVs, because of their durability and lower fuel usage. And 1,962 intermediate delivery vans, 122 tractors and 407 semi-trailers also were added to the postal transportation fleet in FY 1987.

The facilities budget of $1.1 billion for FY 1987 brought several major construction projects into operation. Included were a new airport mail facility in Chicago; general mail and vehicle maintenance facilities in Las Vegas, Nevada and San Jose, California; a mail processing facility in Mid-Island, New York; a general mail facility in Nashville, Tennessee; and an engineering support center in Northern Virginia. Another 181 postal-owned facilities costing $291 million were completed, and 882 additional projects were underway. In addition to these improvements, construction continued on the new Technical Training Center at Norman, Oklahoma.

Two innovative ground-leasing projects also were announced in FY 1987, in mid-Manhattan, New York and downtown New Orleans, Louisiana. The eight-story Grand Central Station facility in New York will be redeveloped into a 40-story, $400 million commercial office building, to be com-

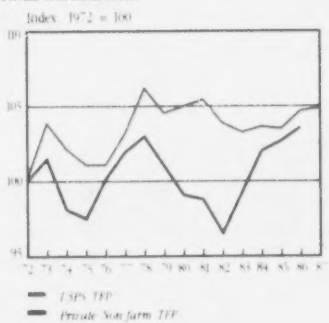
**Financial Impact of FY 1987 Major Project Approvals**




**Total Factor Productivity: USPS vs. Private Non-Farm Sector**

*Since 1985, the Postal Service has measured Total Factor Productivity (TFP). The chart reflects the calculation of TFP back to 1972. Postal Service Total Factor Productivity (TFP) has grown 0.5% per year on average, essentially the same as the entire private non-farm sector.*

*Source: USPS and Bureau of Labor Statistics*



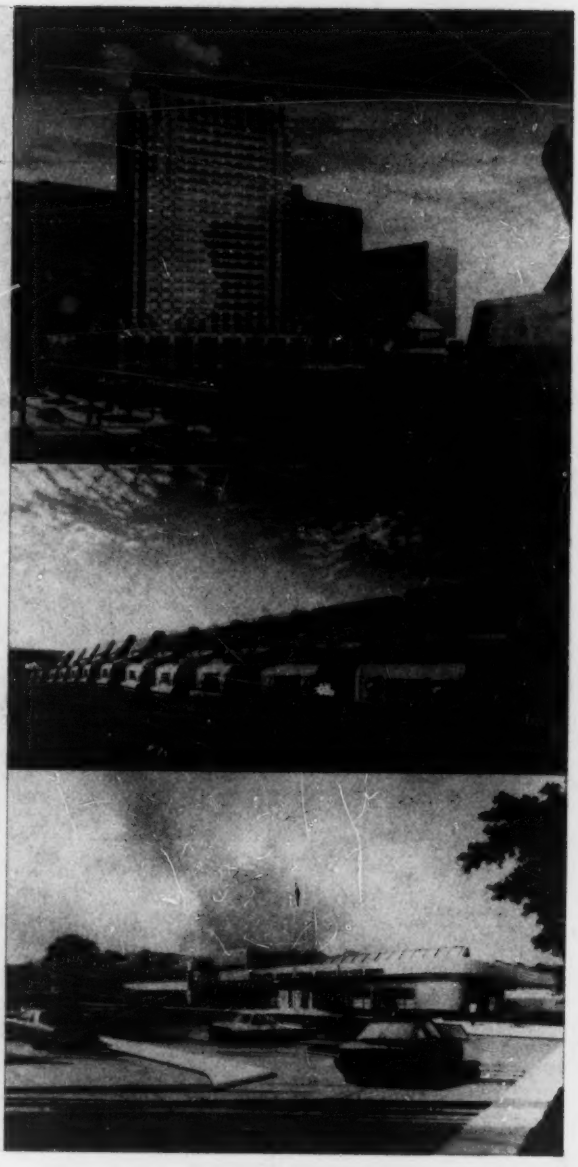
pleted in 1992. Similarly, downtown New Orleans will see the post office land next door to the Louisiana Superdome become a multi-story shopping center property.

Fiscal Year 1987 also began a three-year transformation of the postal procurement system. A new, simplified-language procurement manual was introduced. In keeping with goals of decentralizing postal management authority, the new manual emphasizes policy and process rather than procedures. It combines the most advantageous aspects of public and commercial procurement policy, permitting contracting officers to use business judgment in making procurement decisions.

To support the new policy, a comprehensive training program for contracting officers began in October 1987 and will be completed during 1988.

Further initiatives were made in postal materials management. The Rapid Equipment Deployment Inventory (REDI) was introduced in FY 1987. Designed to slash local "just in case" equipment hoarding, and to quickly meet the fluid operational needs of Procurement and Supply's customers, REDI has cut the lead time required to fill field orders from months to 3 to 5 days.

The Postal Service remains concerned, of course, that the progress made in FY 1987 will be slowed by the mandated cap on new capital commitments. The interruption of its FY 1988 facilities construction program will require a complete reordering of priorities and a reassessment of the five-year capital investment plan approved during FY 1987. That plan would have committed almost $12 billion to new facilities, vehicles and equipment.



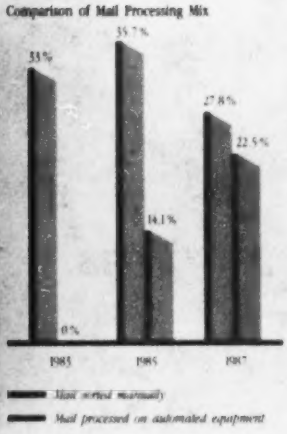
*(Top) A multi-level shopping complex in the shadow of the Louisiana Superdome will rise into the New Orleans skyline in the future, one of two unique ground lease mail projects approved by the Postal Service in FY 1987.*

*(Center) The first of the Postal Service's fleet of Long Life vehicles began leaving Grumman's assembly plant in Pennsylvania and were pressed into service during the year. The revolutionary vehicles are expected to last an average of 24 years and save $6 billion in operating costs.*

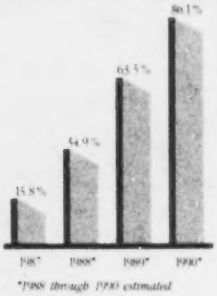
*(Right) The modern processing and vehicle maintenance facility in Las Vegas was one of seven new major mail processing plants brought into operation in FY 1987.*

*Most of the Postal Service's optical character readers will be altered to read multiple lines of an address, which — will enable these sophisticated machines to process more mail to the ZIP + 4 code level.*

**Comparison of Mail Processing Mix**




**Percent of Window Transactions Processed on Automated Equipment**




**1988 through 1990 estimated*

## AUTOMATION AND TECHNOLOGY

A continuing element in the capital investment, procurement and cost-containment strategies of the Postal Service is bringing increased automation to postal retail and mail processing operations. In assessing the adjustments to capital spending required by the deficit reduction legislation, care was taken to preserve purchases of equipment with high return-on-investment value and potential for long-term productivity improvement. During FY 1987, the Postal Service accepted delivery of some 150 bar code sorters and 145 optical character readers, part of a procurement of more than 400 single-line OCRs. It also resumed its program to acquire multiline reading capability for those OCRs. Successful tests of the multiline conversion package were completed in Denver, and the conversion of these OCRs to multiline will continue through May 1989. These new machines will contain address directories and will be capable of processing OCR readable letter mail to the ZIP + 4 code level. They are expected to augment customer application of the expanded ZIP Code, which provides the grid on which all mail will eventually be processed.

The Postal Service also awarded contracts for 70 flat mail cancellers and ordered 44 additional multi-position letter sorting machines for processing mail in high-growth field divisions. An additional 180 multi-position flat sorting machines were ordered, and deliveries began in the fall of 1987. All of these machines will be in full use by mid-1988.

The Postal Service continues to use its technological resources to aggressively attack service problems, particularly those relating to undeliverable-as-addressed mail. Studies indicate that 33 percent of all mail carries addresses containing one or more errors. The introduction and expanded use of the National Change of Address System (NCOA) during the fiscal year was a key step in resolving quality-of-addressing problems.

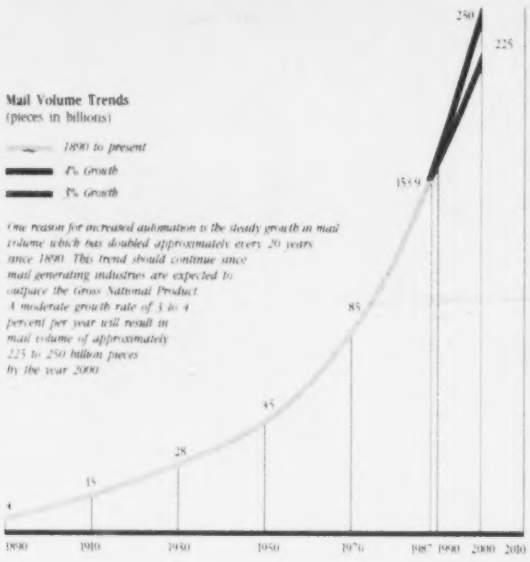
Innovative improvements to postal management information systems are being planned to replace outdated methods of collecting, controlling and distributing data on which the Postal Service relies. Some of these new systems, however, will be delayed as a consequence of the operating budget and capital budget adjustments necessary in order to meet the requirements of the Budget Reconciliation Act.

*Innovative retail concepts being studied by the Postal Service include the Automated Postal Teller which may bring postal products to future postal customers in much the same manner as automated tellers handle routine banking transactions today.*

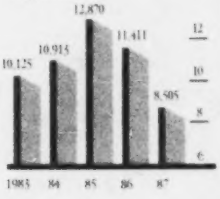
*The Postal Service acquired state-of-the-art equipment for processing flat mail and continues to explore advanced technological concepts for processing all types of non-letter-sized mail. Shown above is an experimental system being developed to sort small parcels and flat mail. Such advanced technology is expected to be available in the early 1990's.*

Window and retail vending equipment have been among key capital investments to improve customer service. Although these programs will be slowed somewhat by the capital investment limitations imposed for FY 1988, FY 1987 provided a major expansion of their use in post offices throughout the country. By year's end, there were 8,300 Integrated Retail Terminals deployed. More than 30,000 new or modernized vending machines also were deployed.

Plans were completed in FY 1987 for a third Advanced Technology Conference to be hosted by the Postal Service in 1988. This conference will enable the Postal Service to continue to tap the intellectual resources of the world's leading experts in advanced technology and materials-handling concepts.


Mail Volume Trends
(pieces in billions)
1890 to present
4% Growth
3% Growth
One reason for increased automation is the steady growth in mail volume which has doubled approximately every 20 years since 1890. This trend should continue since mail generating industries are expected to outpace the Gross National Product. A moderate growth rate of 3 to 4 percent per year will result in mail volume of approximately 225 to 250 billion pieces by the year 2000.
4
15
28
45
85
153.9
250
225
1890
1910
1930
1950
1970
1987
1990
2000
2010

**Formal Equal Opportunity Complaints**

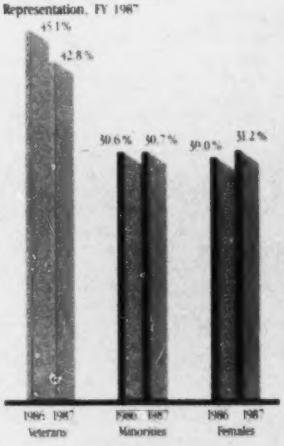



## HUMAN RESOURCES

A key issue during FY 1987 was the negotiation of new contracts with postal unions representing approximately 579,000 employees represented by the three largest postal unions. In an unprecedented move, Postmaster General Tisch personally opened negotiations with the leaders of the National Association of Letter Carriers, the American Postal Workers Union and the Mail Handlers Division of the Laborers International Union of North America. The contracts were successfully negotiated, signed and ratified by the members of the three unions. The major provisions were: for each bargaining unit employee's grade and step, effective July 18, 1987, an increase in basic salary equal to two percent of base salary; $250 increases to basic annual salary on July 16, 1988 and January 14, 1989; $300 increases to basic salary effective July 15, 1989 and January 27, 1990; and a $200 increase to basic salary July 28, 1990. The Cost of Living Adjustments (COLAs) remained unchanged except for one payment to cover the additional four-month term of the contracts. Allowances for uniforms and work clothes were increased 10 percent, while benefit provisions for health plans and insurance remained unchanged from the previous contract. Subsequent settlements with smaller unions mirrored the terms of those reached in July.

Following the labor negotiations, pay consultations with the management associations were completed. The new 40-month Executive Administrative Schedule (EAS) compensation package provided: Four successive annual salary increases of

**Veterans, Minorities, Female Representation, FY 1987**




2.8 percent, 2.4 percent, 2.6 percent, and 1.2 percent; elimination of the 75 percent COLA limitation for EAS-24 and above employees, and a change in the COLA/salary cap from a fixed dollar amount ($55,000) to a floating reference point, the maximum basic salary for EAS-26; and continuation of semiannual cost-of-living adjustments.

To address its needs for a well qualified work force, the Postal Service created a Training and Development Department which is charged with responsibility for one of the nation's largest business training programs, one that affects every level from craft and technical jobs to supervisor and executive ranks. The Postal Service conducted pilot courses for advanced training of retail clerks. This new training program recognizes the quality of point-of-sale transactions as one of the most important interactions between customers and employees. In total, more than 13.6 million training hours were provided in the year, of which approximately 6.6 million were delivered or coordinated by the 189 Postal Employee Development

*Em[illegible]s Santa Ana, CA, undergo a unique form of t[illegible]. Under the assumption that practice makes perfect, trainees are videotaped and have the opportunity to review how they handle customer interaction.*

Centers. The Postal Service spent $86.6 million for all types of training during FY 1987. This does not include the salary costs of those receiving training or of the local training staff.

The Postal Service tested more than 1.6 million applicants for skilled and unskilled positions. Active recruitment continued to improve the Postal Service's performance against its affirmative action goals. And, for the fifth consecutive year, the Postal Service exceeded its goal for hiring of handicapped individuals.

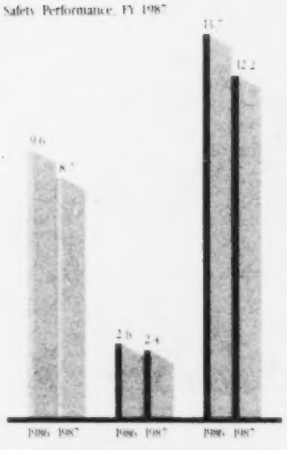
Added emphasis was placed throughout the year on resolving Equal Employment Opportunity (EEO) complaints through informal counseling. This program produced dramatic results: 83.5 percent of EEO complaints were settled or resolved at the informal stage and never became formal complaints. During the year, 8,505 formal EEO complaints were filed, 25.5 percent fewer than Fiscal 1986.

The continuing emphasis on safety during FY 1987 also produced positive results. The total number of accidents dropped to 62,455 in FY 1987 from 66,625 in FY 1986. Injuries resulting in lost workdays decreased from 18,141 in FY 1986 to 16,982 in FY 1987. Postal vehicle accidents decreased from 20,995 in FY 1986 to 18,831 in FY 1987.

The Employee Assistance Program (EAP) provided assistance to 12,600 employees attempting recovery from alcohol or drug abuse.

The Employee Involvement/Quality of Work Life (EI/QWL) process was expanded and is now operational in every division and management sectional center. Approximately 4,850 work teams or quality circles meet regularly to address issues such as communications, labor-management and supervisor-employee relationships, physical working conditions and business issues. Creative methods of improving service are encouraged and have resulted in innovative improvements in postal operations and how the Postal Service does business with its customers.

Safety Performance, FY 1987




*A lost workday injury is one which results in time away from work beyond the date of injury.

*In Charlotte (NC) Plaza, customers take advantage of a service cart suggested by an employee brainstorming session, which brings the post office to them. They buy stamps and Express Mail, have postage meters set, register mail and conduct other business that previously required a trip to the post office. The cart helps take pressure off lines at a nearby post office.*

**FINANCIAL STATEMENTS**

**BALANCE SHEETS**
**UNITED STATES POSTAL SERVICE**

| | Sept. 30, 1987 | Sept. 30, 1986 |
|---|---|---|
| **Assets** | (dollars in thousands) | |
| Current assets | | |
| Cash | $ 26,922 | $ 128,863 |
| U.S. Government securities, at amortized cost which approximates market | 4,592,129 | 3,823,227 |
| Receivables | | |
| Foreign countries | 339,624 | 269,747 |
| U.S. Government | 154,846 | 200,066 |
| Accrued interest | 52,896 | 17,207 |
| Other | 54,509 | 79,447 |
| | 601,875 | 566,467 |
| Less allowances | 21,853 | 23,739 |
| | 580,022 | 542,728 |
| Supplies, advances and prepayments | 141,451 | 163,702 |
| Total current assets | 5,340,524 | 4,658,520 |
| Other assets—Note 4 | 21,104 | 19,377 |
| Property and equipment, at cost—Note 4 | | |
| Buildings | 5,462,994 | 4,682,636 |
| Equipment | 3,440,913 | 2,992,949 |
| Land | 837,640 | 687,323 |
| | 9,741,547 | 8,362,908 |
| Less allowances for depreciation | 3,113,803 | 2,774,448 |
| | 6,627,744 | 5,588,460 |
| Construction in progress | 1,538,895 | 1,359,508 |
| Leasehold improvements, net of amortization | 175,123 | 145,270 |
| | 8,341,762 | 7,093,238 |
| Deferred retirement costs—Note 3 | 18,383,823 | 18,043,047 |
| | $32,087,213 | $29,814,182 |

*See notes to financial statements*



90-835 O - 89 - 4

| | Sept. 30, 1987 | Sept. 30, 1986 |
|---|---|---|
| **Liabilities and Equity** | (dollars in thousands) | |
| Current liabilities | | |
| Compensation and employees' benefits | $ 2,074,855 | $ 1,768,690 |
| Estimated prepaid postage | 1,084,000 | 1,019,000 |
| Other accounts payable and accrued expenses | 893,943 | 855,856 |
| Deferred revenue | 678,472 | 614,276 |
| Outstanding postal money orders | 590,963 | 360,587 |
| Current portion of long-term debt | 295,200 | 141,800 |
| Amounts payable to other U.S. Government agencies | 187,699 | 106,262 |
| Total current liabilities | 5,605,132 | 4,846,471 |
| Long-term debt, less current portion—Note 4 | 4,434,625 | 5,092,649 |
| Other liabilities | | |
| Amounts payable for retirement benefits—Note 3 | 17,934,734 | 17,650,261 |
| Workers' compensation claims | 5,118,000 | 5,048,000 |
| Employees' accumulated leave | 838,497 | 814,933 |
| Other | 20,000 | 20,000 |
| | 21,911,231 | 21,513,194 |
| Commitments and contingencies—Notes 3, 5 and 6 | | |
| Equity | | |
| Capital contributions of the U.S. Government | 3,040,251 | 3,041,206 |
| Deficit from operations since commencement on July 1, 1971 | ( 2,902,024) | ( 2,679,338) |
| | 138,227 | 361,868 |
| | $32,087,213 | $29,814,182 |

*See notes to financial statements.*

| STATEMENTS OF OPERATIONS AND CHANGES IN EQUITY<br>UNITED STATES POSTAL SERVICE | Year Ended<br>Sept. 30, 1987 | Year Ended<br>Sept. 30, 1986 |
|---|---|---|
| | (dollars in thousands) | |
| Operating revenue | $31,528,112 | $30,102,091 |
| Appropriations for revenue forgone | | |
| for certain classes of mail—Note 2 | 650,000 | 715,836 |
| | 32,178,112 | 30,817,927 |
| Operating expenses | | |
| Compensation and employees' benefits | 27,228,844 | 25,575,894 |
| Other | 5,290,845 | 5,140,701 |
| | 32,519,689 | 30,716,595 |
| Income (loss) from operations | ( 341,577) | 101,332 |
| Interest income | 527,186 | 316,838 |
| | ( 14,391) | 418,170 |
| Interest expense | 208,295 | 113,562 |
| Net income (loss) | ( 222,686) | 304,608 |
| Equity—beginning of year | 361,868 | 58,364 |
| Capital equipment transferred to U.S. Government | ( 955) | ( 1,104) |
| Equity—end of year | $ 138,227 | $ 361,868 |

*See notes to financial statements.*

| STATEMENTS OF CHANGES IN FINANCIAL POSITION<br>UNITED STATES POSTAL SERVICE | Year Ended Sept. 30, 1987 | Year Ended Sept. 30, 1986 |
|---|---|---|
| | (dollars in thousands) | |
| **Sources of working capital** | | |
| From operations | | |
| Net income (loss) | ($ 222,686) | $ 304,608 |
| Charges to operations not requiring outlays of working capital | | |
| Amortization of deferred retirement costs | 462,556 | 474,477 |
| Depreciation and amortization | 414,290 | 387,409 |
| Provision for noncurrent Workers' Compensation claims | 70,000 | 272,000 |
| Increase in employees' accumulated leave | 23,564 | 38,812 |
| Total sources from operations | 747,724 | 1,477,306 |
| Increase in long-term debt | 1,485,600 | 1,250,000 |
| Increase in noncurrent amounts payable for retirement benefits | 753,562 | 968,433 |
| Total sources | 2,984,886 | 3,695,739 |
| **Uses of working capital** | | |
| Additions to property and equipment, net | 1,662,814 | 1,246,960 |
| Additions to deferred retirement costs | 805,332 | 945,931 |
| Payment of retirement principal (OPM) | 449,089 | 472,748 |
| Decrease in long-term debt | 141,626 | 140,614 |
| Increase (decrease) in other assets | 1,727 | ( 819) |
| Capital equipment transferred to U.S. Government | 955 | 1,104 |
| Total uses | 3,059,543 | 2,806,538 |
| Decrease (Increase) in working capital deficiency | ($ 74,657) | $ 889,201 |
| **Changes in components of working capital** | | |
| Increase (decrease) in current assets | | |
| Cash and U.S. Government securities | $ 666,961 | $ 1,308,115 |
| Receivables | 37,294 | 122,370 |
| Supplies, advances and prepayments | ( 22,251) | ( 6,706) |
| | 682,004 | 1,423,779 |
| Increase (decrease) in current liabilities | | |
| Compensation and employees' benefits | 306,165 | 150,086 |
| Estimated prepaid postage | 65,000 | 65,000 |
| Other accounts payable and accrued expenses | 58,087 | 176,724 |
| Deferred revenue | 64,196 | 49,461 |
| Outstanding postal money orders | 30,376 | 58,277 |
| Current portion of long-term debt | 151,400 | 50,000 |
| Amounts payable to other U.S. Government agencies | 81,437 | 5,030 |
| | 756,661 | 534,578 |
| Decrease (Increase) in working capital deficiency | ($ 74,657) | $ 889,201 |

*See notes to financial statements.*

**NOTES TO FINANCIAL STATEMENTS**
**UNITED STATES POSTAL SERVICE**
**SEPTEMBER 30, 1987 AND 1986**

Note 1
**Postal Reorganization and Accounting Policies**

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Buildings and equipment are depreciated over their estimated useful lives using the straight line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately $30,000,000 in fiscal year 1987 and $23,000,000 in fiscal year 1986.

Workers' Compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay in an amount equal to the present value of the equal annual installments due to the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Effective with the passage of Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled $10 million in fiscal year 1987.

Note 2
**Operating Appropriation**

The Postal Reorganization Act authorizes the Postal Service an annual appropriation equal to revenue forgone for providing certain mail services free or at reduced rates. Operating appropriations for revenue forgone received during fiscal years 1987 and 1986 totaled $650,000,000 and $715,836,000, respectively.

## Note 3
## Retirement Programs

*Description of Plans and Contribution Rates*—The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement Program (the Program). Under this Program, the Postal Service and employees hired prior to January 1, 1984 each contribute seven percent of basic annual salary to the Civil Service Reirement and Disability Fund (the Fund) and 1.45 percent of gross wages for Social Security for Medicare in 1987 and 1986.

Employees hired since January 1, 1984, were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. During fiscal years 1987 and 1986, these employees and the Postal Service each contributed 1.3 percent and seven percent, respectively, of basic annual salary to the Fund and 7.15 percent of gross wages for Social Security.

From January 1, 1987, employees hired since January 1, 1984 are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984 will be able to elect participation in FERS between July 1, 1987 and December 31, 1987. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

During fiscal year 1987, FERS initially required contributions from the Postal Service and participating employees amounting to 7.15 percent of gross wages for Social Security and an estimated 14.7 and 1.5 percent, respectively, of basic annual salary for the basic annuity plan. The 14.7 percent amount was subsequently revised to 13.5 percent due to changes in Office of Personnel Management's (OPM) actuarial assumptions. The Postal Service is also required to contribute a minimum of one percent per annum of the basic annual salary of participating employees to the thrift savings plan. Contributions by employees to the thrift savings plan are voluntary and are fully matched by the Postal Service up to three percent of basic annual salary and at a 50 percent rate between three and five percent of basic annual salary.

*Unfunded Liability*—Under the Civil Service Retirement Program, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the Fund attributable to Postal Service employee-management agreements that authorize increases in basic annual salary on which benefits payable from the Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at the rate used in the most recent valuation of the Civil Service Retirement System (currently five percent), with the first payment thereof due at the end of the fiscal year in which an increase in the basic annual salary becomes effective.

Contributions to the basic annuity plan of FERS are to be determined by OPM with the objective that benefits under FERS be fully funded. Unfunded liabilities of the basic annuity plan, if any, related to Postal Service employees as determined by OPM will be funded by the Postal Service through supplemental contributions over 30 years with interest.

Under the July 1981 and 1984 employee-management agreements, cost-of-living-allowances (COLAs) accumulated under prior agreements will not become part of basic annual salary until October 1984 and 1987, respectively. COLAs paid in fiscal years 1985-1987 under the provisions of the 1984 employee-management agreements will be included in basic annual salary as a result of the recently completed 1987 contract negotiations. The increase in the expense that resulted from increases in the basic annual salary was estimated at $49,000,000 for fiscal year 1987 and was $58,604,090 for fiscal year 1986.

Aggregate retirement costs for fiscal years 1987 and 1986 were $2,795,000,000 and $2,360,000,000, respectively, including $1,366,525,000 and $1,354,706,000, respectively, attributable to amortization of deferred retirement costs and interest on the unfunded liability, and $50,131,000 in fiscal year 1987 for Postal Service contributions to the Thrift Savings Plan.

The estimated future minimum payments required to fund amounts payable for retirement benefits on September 30, 1987, are as follows:

| Fiscal Year | Amount |
|---|---|
| 1988 | $ 1,402,825,000 |
| 1989 | 1,402,825,000 |
| 1990 | 1,402,825,000 |
| 1991 | 1,402,825,000 |
| 1992 | 1,402,825,000 |
| Thereafter | 24,315,422,000 |
| | 31,327,547,000 |
| Less amount representing interest and the portion classified as a current liability | 13,392,813,000 |
| | $17,934,734,000 |

Note 4
**Long-Term Debt and Interest Costs**

The Postal Reorganization Act authorizes the Postal Service to issue and sell obligations not to exceed $10,000,000,000 outstanding at any one time. The net increase outstanding in any one year shall not exceed $1,500,000,000 for capital improvements and $500,000,000 for operating expenses. Such obligations shall not be obligations of the U.S. Government unless the Secretary of the Treasury, upon request of the Postal Service, determines that it would be in the public interest to pledge the full faith and credit of the Government of the United States.

The 6¼% Postal Service Bonds, Series A, were issued under a Trust Indenture dated February 1, 1972, and are secured by a first lien on the revenue, income, fees, rents, appropriations, and other receipts of the Postal Service; the proceeds of all obligations issued by the Postal Service; and all sinking and improvement funds established pursuant to the Trust Indenture. On July 31 of each year, the Postal Service is required to deposit in a sinking and improvement fund the sum of $10,000,000 either in cash or reacquired Series A Bonds. However, the Trust Indenture further provides that, at the option of the Postal Service, such sinking fund requirements may be applied to the payment of costs of capital additions or improvements to properties of the Postal Service. Since the commencement of the sinking fund in 1978, the Postal Service has applied $87,800,000 to the construction of mail facilities. The balance in the sinking fund ($12,200,000 in 1987 and $10,000,000 in 1986) is classified with other assets in the accompanying balance sheets. The bonds are redeemable prior to maturity, at the option of the Postal Service, at the principal amount plus accrued interest.

| | Sept. 30, 1987 | Sept. 30, 1986 |
|---|---|---|
| 6¼% Postal Service Bonds, Series A, due February 1, 1997 | $ 250,000,000 | $ 250,000,000 |
| Notes payable to Federal Financing Bank: | | |
| 8.075% payable $32,000,000 each year to May 31, 2000 | 416,000,000 | 480,000,000 |
| 7.80% payable $15,000,000 each year to May 31, 2001 | 210,000,000 | 225,000,000 |
| 10.475% payable $38,800,000 each year to May 31, 2010 | 892,400,000 | 931,200,000 |
| 7.591% payable $50,000,000 each year to May 31, 2011 | 1,200,000,000 | 1,250,000,000 |
| 8.474% payable $30,000,000 each year to May 31, 2012 | 750,000,000 | — |
| 8.908% payable $35,400,000 each year to May 31, 2012 | 885,000,000 | — |
| Mortgage notes payable including interest of 4% to 15% maturing from fiscal years 1988 through 2012 secured by land, buildings and equipment with a carrying amount of $125,000,000 (aggregate annual installments approximate $6,000,000 with an additional $86,000,000 due in fiscal year 1988) | 124,423,000 | 130,249,000 |
| | 4,727,823,000 | 3,234,449,000 |
| Less current portion | 293,200,000 | 141,800,000 |
| | $4,434,623,000 | $3,092,649,000 |

## Note 5
### Commitments

At September 30, 1987, the estimated cost to complete approved Postal Service capital projects was approximately $2,845,000,000.

Total rental expense for the years ended September 30, 1987 and 1986 is summarized as follows:

| | 1987 | 1986 |
|---|---|---|
| Noncancellable real estate leases, including related taxes (1987—$37,800,000; 1986—$37,200,000) | $405,000,000 | $370,800,000 |
| Facilities leased from the General Services Administration subject to 30-day notice of cancellation | 37,200,000 | 35,500,000 |
| Equipment and other short-term rentals | 66,800,000 | 72,400,000 |
| | $509,000,000 | $478,700,000 |

At September 30, 1987, the future minimum rentals for all noncancellable leases approximate the following:

| Year | Total |
|---|---|
| 1988 | $ 334,000,000 |
| 1989 | 300,000,000 |
| 1990 | 253,000,000 |
| 1991 | 200,000,000 |
| 1992 | 146,000,000 |
| Thereafter | 514,000,000 |
| | $1,747,000,000 |

Most of these leases contain renewal options for periods ranging from three to twenty years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

## Note 6
### Contingencies

Several equal employment opportunity, employee compensation and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraph.

## REPORT OF THE INDEPENDENT ACCOUNTANTS

Board of Governors
United States Postal Service

We have examined the accompanying balance sheets of the United States Postal Service at September 30, 1987 and 1986, and the related statements of operations and changes in equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of the United States Postal Service at September 30, 1987 and 1986, and the results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Arthur Young & Company
Washington, D.C.
November 17, 1987

## FINANCIAL HISTORY SUMMARY

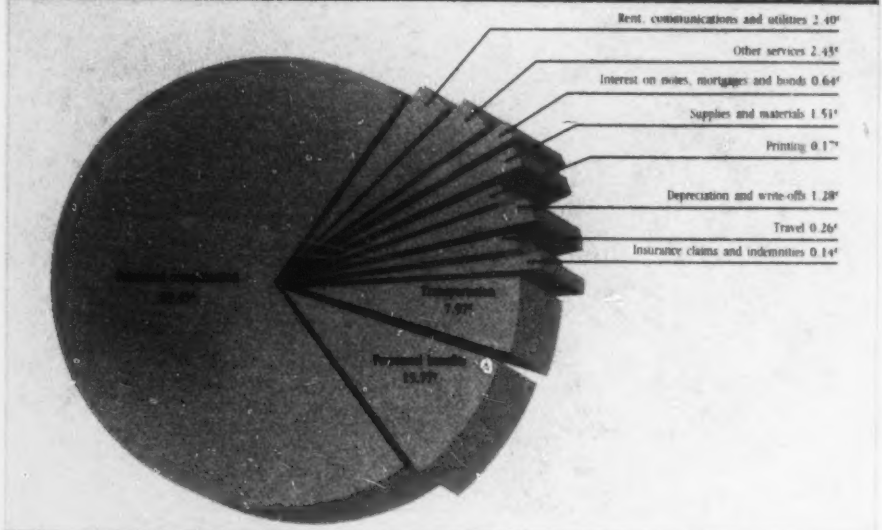
| | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| **Statement of Operations** | | | (dollars in thousands) | | |
| Operating revenue | | | | | |
| Public service appropriation | $31,528,112 | $30,102,091 | $27,736,071 | $25,513,554 | $23,581,667 |
| Revenue forgone appropriation | 0 | 0 | 0 | 0 | 0 |
| Total revenue | 650,000 | 715,836 | 969,620 | 879,000 | 789,000 |
| Salaries and benefits | 32,178,112 | 30,817,927 | 28,705,691 | 26,192,554 | 24,370,667 |
| Other expenses | 27,228,844 | 25,575,894 | 24,349,087 | 22,157,261 | 20,070,241 |
| Total operating expenses | 5,290,845 | 5,140,701 | 4,858,114 | 4,200,092 | 4,012,832 |
| Operating income (loss) | 32,519,689 | 30,716,595 | 29,207,201 | 26,357,353 | 24,083,073 |
| Other income, net | ( 341,577) | 101,332 | ( 501,510) | ( 164,799) | 287,594 |
| Net income (loss) | 118,891 | 203,276 | 250,030 | 282,151 | 328,732 |
| | ($ 222,686) | $ 304,608 | ($ 251,480) | $ 117,352 | $ 616,326 |
| **Balance Sheet** | | | | | |
| Assets | | | | | |
| Current assets | $ 5,340,524 | $ 4,658,520 | $ 3,234,741 | $ 3,332,636 | $ 3,233,035 |
| Property, plant and equipment, deferred retirement costs and other assets | 26,746,689 | 25,155,662 | 23,825,476 | 18,227,022 | 17,630,817 |
| Total assets | $32,087,213 | $29,814,182 | $27,060,217 | $21,559,658 | $20,863,852 |
| Liabilities | | | | | |
| Current liabilities | $ 5,603,132 | $ 4,846,471 | $ 4,311,893 | $ 4,375,896 | $ 3,753,123 |
| Other liabilities | 21,911,231 | 21,513,194 | 20,706,697 | 15,780,759 | 15,608,104 |
| Long-term debt—bonds, notes and mortgages | | | | | |
| Equity | 4,434,623 | 3,092,649 | 1,983,263 | 1,092,264 | 1,390,855 |
| Total liabilities and equity | 138,227 | 361,868 | 58,364 | 310,739 | 111,770 |
| | $32,087,213 | $29,814,182 | $27,060,217 | $21,559,658 | $20,863,852 |
| **Analysis of Changes in Equity (Deficiency)** | | | | | |
| Beginning balance | $ 361,868 | $ 58,364 | $ 310,739 | $ 111,770 | ($ 505,146) |
| Net income (loss) | ( 222,686) | 304,608 | ( 251,480) | 117,352 | 616,326 |
| Capital contributions | ( 955) | ( 1,104) | ( 895) | 81,617 | 590 |
| Ending balance | $ 138,227 | $ 361,868 | $ 58,364 | $ 310,739 | $ 111,770 |

**IMPACT OF REVENUE FORGONE APPROPRIATION* ON REVENUES**
**FISCAL YEAR 1987**

| Class of Service | Total Income of Service | Income from Revenues | Income from Appropriation | Appropriation as a Percentage of Income |
|---|---|---|---|---|
| | | | (dollars in millions) | |
| First-Class Mail | $18,786.0 | $18,786.0 | none | none |
| Priority Mail | 1,085.6 | 1,085.6 | none | none |
| Express Mail | 498.7 | 498.7 | none | none |
| Mailgram | 13.4 | 13.4 | none | none |
| Second-Class Mail | | | | |
| Within-the-county | $ 157.4 | $ 93.7 | $ 43.7 | 31.8% |
| Outside-the-county | | | | |
| Nonprofit publications | 235.3 | 193.1 | 42.2 | 17.9% |
| Classroom publications | 7.5 | 6.2 | 1.3 | 17.3% |
| Regular-rate publications | 975.9 | 975.2 | 0.7 | 0.1% |
| Fees | 11.6 | 11.6 | none | none |
| Total Second-Class Mail | $ 1,367.7 | $ 1,279.8 | $ 87.9 | 6.4% |
| Third-Class Mail | | | | |
| Single-piece rate | $ 152.9 | $ 152.9 | none | none |
| Regular bulk rate | 5,111.7 | 5,111.7 | none | none |
| Nonprofit bulk rate | 1,292.8 | 835.6 | $ 457.2 | 35.4% |
| Fees | 47.4 | 47.4 | none | none |
| Total Third-Class Mail | $ 6,604.8 | $ 6,147.6 | $ 457.2 | 6.9% |
| Fourth-Class Mail | | | | |
| Parcels (zone rate) | $ 414.6 | $ 414.6 | none | none |
| Bound printed matter | 148.7 | 148.7 | none | none |
| Special-rate matter | 203.0 | 203.0 | none | none |
| Library materials | 71.8 | 54.4 | $ 17.4 | 24.2% |
| Fees | 2.2 | 2.2 | none | none |
| Total Fourth-Class Mail | $ 840.5 | $ 822.9 | $ 17.4 | 2.1% |
| U.S. Government (franked and penalty) mail | $ 907.3 | $ 907.3 | none | none |
| Free mail for the blind and handicapped | 28.5 | — | $ 28.5 | 100.0% |
| International mail | 957.2 | 957.2 | none | none |
| Totals | $31,089.5 | $30,498.5 | $ 591.0 | 1.9% |
| Adjustment for prior years | | | 59.0 | |
| Total | | | $ 650.0 | |

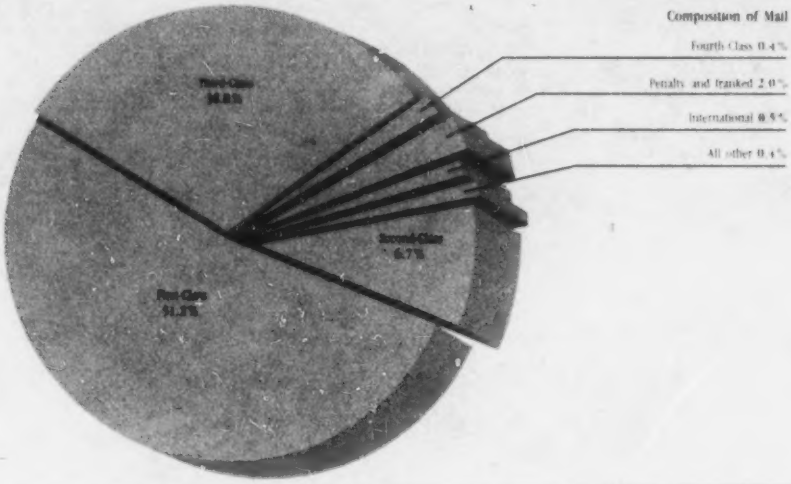
**Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss, which is the difference between the reduced rate and the otherwise applicable rate, is given to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act.*

**ANALYSIS OF EXPENSES**
**FISCAL YEAR 1987**


Rent, communications and utilities 2.40%
Other services 2.45%
Interest on notes, mortgages and bonds 0.64%
Supplies and materials 1.51%
Printing 0.17%
Depreciation and write-offs 1.28%
Travel 0.26%
Insurance claims and indemnities 0.14%

| Source of Income | Millions of Dollars | |
|---|---|---|
| Mail revenue | | |
| Postage | $29,591.2 | |
| Federal government payments | 907.3 | $30,498.5 |
| Special services | | 1,029.6 |
| Government appropriations: | | |
| Revenue forgone appropriation for free and reduced rate mail | | 650.0 |
| Interest income, net | | 118.9 |
| Total income | | 32,297.0 |
| Total operating expenses | | 32,519.7 |
| Net income (loss) | | ($ 222.7) |

**ANALYSIS OF MAIL VOLUME**
**FISCAL YEAR 1987**




| Pieces of Mail (in billions) | 1987 | 1986 | Percent Change |
|---|---|---|---|
| First Class | 78.87 | 76.19 | 3.5 |
| Second Class | 10.32 | 10.59 | −2.5 |
| Third Class | 59.73 | 55.05 | 8.5 |
| Fourth Class | 0.62 | 0.60 | 2.2 |
| Penalty and franked | 3.15 | 3.72 | −15.3 |
| International | 0.78 | 0.80 | −2.5 |
| All other | 0.46 | 0.45 | 0.5 |
| Total mail | 153.93 | 147.38 | 4.4 |

## OPERATING STATISTICS

| Classes of Mail | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| **First-Class** | | | (in thousands of units indicated) | | |
| Pieces, number | 78,869,309 | 76,186,648 | 72,440,277 | 68,428,570 | 64,246,880 |
| Weight, pounds | 2,970,439 | 2,811,578 | 2,662,593 | 2,511,893 | 2,341,830 |
| Revenue | $18,786,027 | $18,034,926 | $16,739,909 | $15,215,938 | $14,255,397 |
| **Priority Mail** | | | | | |
| Pieces, number | 354,331 | 329,896 | 307,815 | 293,442 | 271,355 |
| Weight, pounds | 765,085 | 704,027 | 672,446 | 656,085 | 587,607 |
| Revenue | $ 1,085,636 | $ 1,010,709 | $ 959,989 | $ 928,436 | $ 848,805 |
| **Express Mail*** | | | | | |
| Pieces, number | 41,531 | 40,095 | 43,939 | 42,819 | 35,920 |
| Weight, pounds | 76,832 | 125,325 | 140,002 | 141,518 | 105,276 |
| Revenue | $ 498,733 | $ 490,782 | $ 502,482 | $ 457,656 | $ 394,209 |
| **Mailgram** | | | | | |
| Pieces, number | 21,900 | 25,540 | 31,266 | 34,329 | 36,588 |
| Revenue | $ 15,361 | $ 17,469 | $ 14,906 | $ 12,811 | $ 13,799 |
| **Second-Class** | | | | | |
| Pieces, number | 10,324,309 | 10,587,904 | 10,379,515 | 9,522,476 | 9,219,753 |
| Weight, pounds | 4,012,421 | 3,971,641 | 3,965,545 | 3,852,029 | 3,526,097 |
| Revenue | $ 1,279,847 | $ 1,222,327 | $ 1,092,927 | $ 1,025,020 | $ 958,369 |
| **Third-Class** | | | | | |
| Pieces, number | 59,733,198 | 55,048,946 | 52,170,257 | 48,248,714 | 40,754,719 |
| Weight, pounds | 7,155,058 | 6,543,988 | 6,452,647 | 5,786,583 | 5,062,073 |
| Revenue | $ 6,147,551 | $ 5,606,268 | $ 4,886,566 | $ 4,240,832 | $ 3,676,775 |

**Express Mail statistics have been restated to represent Domestic Express Mail only. Statistics for International Air have been revised to reflect this change.*

| Classes of Mail | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| | | (in thousands of units indicated) | | | |
| **Fourth-Class** | | | | | |
| Pieces, number | 615,230 | 602,006 | 575,680 | 599,057 | 567,529 |
| Weight, pounds | 2,178,673 | 2,254,271 | 2,156,461 | 2,289,263 | 2,248,224 |
| Revenue | $ 822,917 | $ 814,291 | $ 763,003 | $ 773,988 | $ 753,168 |
| **International Surface** | | | | | |
| Pieces, number | 266,966 | 315,734 | 327,449 | 352,481 | 385,137 |
| Weight, pounds | 148,138 | 153,750 | 153,644 | 165,590 | 166,609 |
| Revenue | $ 205,896 | $ 220,877 | $ 212,753 | $ 212,862 | $ 222,872 |
| **International Air**** | | | | | |
| Pieces, number | 510,850 | 481,993 | 503,266 | 543,447 | 520,562 |
| Weight, pounds | 67,774 | 64,408 | 69,491 | 70,151 | 67,564 |
| Revenue*** | $ 751,256 | $ 713,249 | $ 710,834 | $ 677,919 | $ 678,796 |
| **Penalty** | | | | | |
| Pieces, number | 2,644,744 | 2,969,799 | 2,608,045 | 2,523,178 | 2,775,321 |
| Weight, pounds | 452,841 | 468,930 | 469,550 | 499,673 | 487,156 |
| Revenue | $ 844,158 | $ 896,576 | $ 848,896 | $ 788,894 | $ 841,012 |
| **Franked** | | | | | |
| Pieces, number | 507,019 | 751,769 | 682,914 | 923,955 | 549,247 |
| Weight, pounds | 13,875 | 17,441 | 14,847 | 19,744 | 14,178 |
| Revenue | $ 63,164 | $ 96,103 | $ 85,529 | $ 111,646 | $ 72,197 |
| **Free for the Blind** | | | | | |
| Pieces, number | 41,187 | 35,475 | 27,533 | 32,172 | 38,398 |
| Weight, pounds | 41,999 | 36,793 | 25,375 | 29,595 | 37,797 |
| **Totals** | | | | | |
| Pieces, number | 153,930,574 | 147,375,805 | 140,097,956 | 131,544,620 | 119,381,409 |
| Weight, pounds | 17,881,115 | 17,152,152 | 16,782,581 | 16,022,124 | 14,644,411 |
| Revenue | $30,498,546 | $29,123,377 | $26,817,794 | $24,446,002 | $22,715,399 |

***Figures have been revised to include International Express Mail formerly included with Domestic Express Mail.*

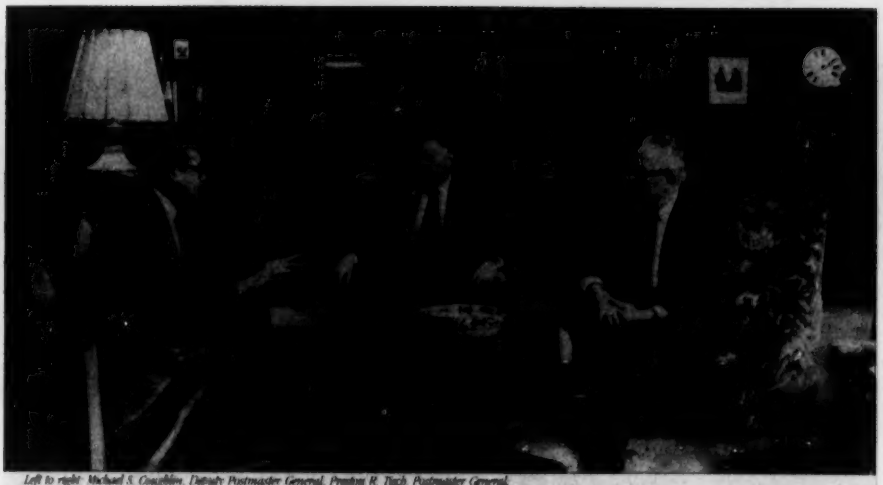
****Includes transit special handling and miscellaneous revenue.*

| Special Services | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| **Registry** | | | (in thousands of units indicated) | | |
| Number of articles (paid and free) | 52,427 | 52,348 | 51,123 | 54,735 | 53,950 |
| Revenue | $ 159,514 | $ 167,363 | $ 164,038 | $ 162,979 | $ 164,882 |
| **Certified** | | | | | |
| Number of pieces | 160,602 | 147,374 | 130,698 | 124,112 | 111,255 |
| Revenue | $ 222,973 | $ 202,927 | $ 174,702 | $ 155,998 | $ 140,538 |
| **Insurance** | | | | | |
| Number of articles | 40,006 | 39,783 | 43,372 | 46,960 | 48,749 |
| Revenue | $ 51,735 | $ 50,344 | $ 51,043 | $ 54,229 | $ 55,505 |
| **Collection-on-Delivery** | | | | | |
| Number of articles | 10,405 | 10,383 | 11,022 | 11,960 | 11,819 |
| Revenue | $ 19,569 | $ 19,528 | $ 21,304 | $ 23,030 | $ 21,906 |
| **Special Delivery** | | | | | |
| Number of articles | 8,440 | 10,232 | 15,373 | 19,044 | 22,055 |
| Revenue | $ 25,144 | $ 30,448 | $ 40,496 | $ 40,681 | $ 47,416 |
| **Money Orders** | | | | | |
| Number issued | 141,977 | 133,799 | 117,792 | 115,550 | 115,073 |
| Revenue fees | $ 147,525 | $ 134,647 | $ 125,935 | $ 131,575 | $ 124,200 |
| **Other** | | | | | |
| Box rent revenue | $ 273,262 | $ 258,582 | $ 229,891 | $ 188,055 | $ 202,050 |
| Stamped envelope revenue | 18,434 | 14,745 | 16,831 | 13,883 | 16,826 |
| Other revenue, net | 111,412 | 100,132 | 94,057 | 97,122 | 92,945 |
| **Totals** | | | | | |
| Special services revenue | $ 1,029,566 | $ 978,714 | $ 918,277 | $ 867,552 | $ 866,268 |
| Mail revenue | 30,498,546 | 29,123,377 | 26,817,794 | 24,446,002 | 22,715,399 |
| Operating revenue | $31,528,112 | $30,102,091 | $27,736,071 | $25,313,554 | $23,581,667 |

| Employees | 1987* | 1986* | 1985* | 1984* | 1983* |
|---|---|---|---|---|---|
| Headquarters employees | 3,428 | 3,037 | 3,077 | 3,012 | 2,993 |
| Field regular employees | | | | | |
| Regional and other field units | 4,808 | 4,988 | 6,536 | 6,524 | 6,441 |
| Inspection Service (field) | 4,251 | 4,237 | 4,370 | 4,510 | 4,655 |
| Postmasters | 27,735 | 27,352 | 27,811 | 28,140 | 28,266 |
| Post office supervisors and technical personnel | 53,644 | 49,424 | 46,279 | 44,515 | 41,659 |
| Post office clerks, mail handlers and nurses | 271,859 | 259,773 | 248,939 | 235,172 | 229,141 |
| City delivery carriers and vehicle drivers | 195,518 | 186,727 | 179,198 | 171,434 | 166,317 |
| Rural delivery carriers | 36,551 | 35,958 | 35,206 | 34,679 | 34,438 |
| Special delivery messengers | 1,781 | 1,824 | 1,832 | 1,790 | 1,815 |
| Building and equipment maintenance personnel | 29,299 | 28,383 | 28,477 | 27,524 | 27,193 |
| Vehicle maintenance facility personnel | 4,513 | 4,346 | 4,218 | 4,119 | 4,023 |
| Total full-time employees | 633,387 | 606,029 | 585,943 | 561,419 | 546,941 |
| Other employees | 128,128 | 147,870 | 130,055 | 116,585 | 109,459 |
| Rural carrier substitutes | 2,013 | 3,184 | 4,716 | 6,687 | 9,324 |
| Rural carrier reliefs/associates | 27,029 | 27,474 | 23,776 | 17,432 | 13,121 |
| Grand total | 790,557 | 784,557 | 744,490 | 702,123 | 678,845 |

| Offices, Stations and Branches | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| Number of post offices | 29,319 | 29,344 | 29,557 | 29,750 | 29,990 |
| Number of stations and branches: | | | | | |
| Classified stations and branches | 4,910 | 4,240 | 4,224 | 4,184 | 4,160 |
| Contract stations and branches | 4,087 | 3,965 | 3,856 | 3,744 | 3,626 |
| Community post offices | 1,714 | 1,721 | 1,690 | 1,708 | 1,669 |
| Total | 10,711 | 9,926 | 9,770 | 9,636 | 9,455 |
| Grand total | 40,030 | 39,270 | 39,327 | 39,386 | 39,445 |

**Figures have been revised to conform with current method of counting employees using the on-rolls and paid employee statistics database*



*Left to right: Michael S. Coughlin, Deputy Postmaster General; Preston R. Tisch, Postmaster General; the late Fletcher F. Acord, Associate Postmaster General.*

## SENIOR USPS OFFICIALS

**Preston R. Tisch**
Postmaster General

**Michael S. Coughlin**
Deputy Postmaster General

**Fletcher F. Acord**
Associate Postmaster General

**Louis A. Cox**
General Counsel

**Charles R. Clauson**
Chief Postal Inspector

**David H. Charters**
Senior Assistant Postmaster General
Human Resources Group

**Conner S. Coppie**
Senior Assistant Postmaster General
Finance and Planning Group

**John G. Mulligan**
Senior Assistant Postmaster General
Operations Support Group

**Mitchell H. Gordon**
Senior Assistant Postmaster General
Marketing and Communications Group

**Edward E. Horgan, Jr.**
Senior Assistant Postmaster General
Facilities and Supply Group

**Kenneth J. Hunter**
Senior Assistant Postmaster General
Management Information and Research Technology Group

**Joseph R. Caraveo**
Regional Postmaster General
Western Region

**Jerry K. Lee, Sr.**
Regional Postmaster General
Central Region

**William R. Cummings**
Regional Postmaster General
Northeast Region

**Johnny F. Thomas**
Regional Postmaster General
Eastern Region

**William A. Campbell, Jr.**
Regional Postmaster General
Southern Region

*Left to right: Senior Assistant Postmasters General Kenneth J. Hunter, Mitchell H. Gordon, Louis A. Cox, General Counsel, Senior Assistant Postmasters General David H. Charlier, Elmer S. Coppa, John G. Mulligan, Edward E. Morgan, Jr.*

*William R. Cummings*
*Regional Postmaster General*
*Northeast Region*

*Johnny F. Thomas*
*Regional Postmaster General*
*Eastern Region*

*William A. Campbell, Jr.*
*Regional Postmaster General*
*Southern Region*

*Jerry K. Lee, Sr.*
*Regional Postmaster General*
*Central Region*

*Joseph R. Canavero*
*Regional Postmaster General*
*Western Region*

*Left to right, seated: Ruth O. Peters, Suzanne Pace, J. H. Tyler McConnell, Chairman of the Board, John N. Griesemer and Vice-Chairman of the Board, John L. Ryan. Standing: Robert Setrakian, Crocker Nevin, and Ira D. Hall. Governor Hall's appointment became effective December 7, 1987.*

## BOARD OF GOVERNORS

**John N. Griesemer**, *Chairman of the Board*, is President of the Griesemer Stone Company in Springfield, Missouri. He became a Governor in December 1984 for a term which expired December 1986. He was reappointed without a break in service, to a full term, expiring December 8, 1999. He was elected Chairman of the Board in January 1987.

**John L. Ryan**, *Vice Chairman of the Board*, became a postal Governor in May 1983 for a term expiring December 8, 1989. He retired as Vice President of MET 1980 Corporation and General Manager of the Deere Pump Division in Indianapolis, Indiana, in January 1987. He was elected Vice Chairman of the Board in June 1986.

**J. H. Tyler McConnell**, a lawyer, banker, and business executive and 1956 Democratic nominee for Governor of Delaware, served on the Executive Committee of the President's Private Sector Survey on Cost Control in the Federal Government (The Grace Commission). He was appointed a Governor in December 1985 for a term that expires December 8, 1988.

**Crocker Nevin**, Chairman of the Audit Committee of the Board, became a Governor in August 1986 and will serve the remainder of a term expiring December 8, 1992. Governor Nevin has an extensive background in banking, finance and community services. He previously served on the Board as Governor from 1971 to 1977.

**Robert Setrakian**, a San Francisco businessman, was appointed to the Board in December 1985 for a term expiring December 8, 1991. He previously served as a Presidentially appointed Commissioner of the Federal Maritime Commission from 1961 to 1965.

**Suzanne Pace**, an economist and consultant to several top corporations in the nation, was appointed to serve on the Board in May 1987 for a term expiring December 8, 1994. Mrs. Pace is the author of numerous articles for business publications on forecasting and the use of forecasting in business planning.

**Ruth O. Peters**, of Arlington, Virginia, a retired postal executive, was appointed to the Board in December 1985 for a term scheduled to expire December 8, 1987. As provided by law, she may continue to serve after the expiration of her term up to December 1988, pending the appointment of a successor.

**Preston R. Tisch**, named Postmaster General by the Board on August 16, 1986, joined the Postal Service from Loews Corporation, one of the country's largest diversified financial corporations, where he had been president and chief operating officer.

**Michael S. Coughlin** was named Deputy Postmaster General by the Board on January 7, 1987, after holding a series of top-level management positions with the Postal Service. He entered the Postal Service in 1967 as a management intern.

Also serving on the Board during FY 1987 was John R. McKean, who resigned in May 1987. George R. Camp, whose term expired December 8, 1985, continued to serve, as provided by law, until December 8, 1986. Deputy Postmaster General Jackie Strange retired on January 2, 1987.

At the close of Fiscal Year 1987, there were two vacancies for terms expiring in 1991 and 1993.

# QUESTIONS FOR POSTMASTER GENERAL FRANK
## SUBMITTED BY SENATOR PRYOR

**QUESTIONS BASED ON THE 1987 ANNUAL REPORT:**

**QUESTION.** Page 28 of the 1987 Annual Report of the Postmaster General shows a pie chart analysis of expenses for that fiscal year. In comparing this chart with the comparable chart in the fiscal year 1986 Report, I noticed a couple of areas where expenses have shifted. For example, while personnel compensation costs were down slightly in FY'87 (from 67.79% of the postal service dollar to 67.43%), personnel benefits expenses were up 6 tenths of a percent. Another portion of the pie that increased--almost doubling--was the interest paid on notes, mortgages, etc. Could you provide us with some insight concerning these shifts?

**ANSWER.** The increase in the portion of operating expenses that relate to benefits is attributable to a large increase in health benefit premiums and the Federal Employees Retirement System which includes the Thrift Savings Plan. The increase in interest expense is due to the additional borrowing for capital funding.

**QUESTION.** On page 33 of the Report, there is a table showing the change over prior years in the number of postal employees. While the "grand total" of all employees was only up by about 6,000 to 790,557, the number of full-time employees increased by almost 30,000--or about 5% During this same period, there was a 13% increase in the number of headquarters employees.

a. Given that mail volume increased by only 4.4%--with most of that increase coming in the easier to handle 3rd class area--and that the Service placed into operation a significant amount of new automated sorting equipment, can you explain why there was such a large increase in the number of full-time employees?

b. I notice that the "other employee" category dropped by about 20,000 during FY 87. Does this mean that the Service is using fewer part-time and casual employees?

c. In the four years, from 1983 through 1986, there was almost no increase in the size of the headquarters staff. Why, then, was it necessary to increase the headquarters staff by 13%, almost 400 employees, in 1987?

d. By the way, can you tell me whether the headquarters staff figure includes any detailees from the field--if not, how many employees are there on temporary assignment to headquarters?

**ANSWER.**

a. Part of the increase is due to the increase in volume, and part of the increase of 30,000 people in full-time employment can be attributed to increases in nonvolume related workload such as Possible Deliveries and the requirement to convert part-time flexible employees to full-time regulars as specified in the labor contracts.

b. The Postal Service is not using fewer part-time and casual employees over time. However, the conversion factors mentioned in part 1 above and the seasonal nature of the casual appointment period can indicate a reduction at any given time. For example, at the current time the number of other employees is 154,000.

c. This is a transfer of field functions to Headquarters administrative control. Many of these personnel continue to support field operations and remain physically outside the Washington, D.C. area.

d. The Headquarters staff figure does not include any details from the field. Information on the number of details from the field is not centrally maintained.

**QUESTION.** The balance sheet on page 18 has an entry for "receivables--from foreign countries." The figure for this year is almost $340 million--this is up from $270 million last year. Is this terminal dues that are owed the Postal Service, and why is the figure higher than last year?

**ANSWER.** The following table shows the components of foreign receivables and payables for Fiscal Year 1986 and Fiscal Year 1987. These include terminal dues, parcel post charges and an adjustment reflecting the increased value of Special Drawing Rights (SDR). The increase in receivables over Fiscal Year 1986 is primarily the result of a 29 percent increase in revenue. Because of the terminal dues settlement cycle, increased revenue normally produces an increase in receivable balances. The major reason for the growth in revenue was a 36 percent increase in the rates we charge countries for inbound parcels. The Special Drawing Rights increase was made to adjust the value of the foreign receivables at year end due to the increase in value of the SDR, the standard monetary unit used in settling international accounts.

| | FY 1987 | FY 1986 | ~ Change | % CHANGE |
|---|---|---|---|---|
| Foreign Receivables | $339,624 | $269,747 | $69,877 | 25.9% |
| Components: | | | | |
| Terminal Dues | 149,847 | 130,315 | 19,532 | 15% |
| Parcel Post | 101,990 | 70,592 | 31,398 | 44.5% |
| Special Drawing Rights Increase | 19,717 | 0 | 19,717 | |
| Other | 68,070 | 68,840 | -770 | |
| Total | 339,624 | 269,747 | 69,877 | |
| Foreign Payables | $364,042 | $302,505 | $61,537 | 20.3% |

**QUESTION.** The Annual Report talks about the fact that "total factor productivity" for the past 16 years has averaged 0.3%--on a par with "the entire private nonfarm sector." Now, just focusing on the last couple of years, I see from the 1986 Comprehensive Statement on Postal Operations that productivity was up 1.1% for that year. The 1987 Comprehensive Statement on Postal Operations indicates an increase of only 0.1%.

a. Does the Service have an explanation for this drop-off in productivity?

b. I understand that several of the governors were very concerned about both the lack of productivity increases last year and management's attempt to soften this situation with a comparison to the entire private nonfarm sector. Do you share their concerns and, if so, what plans do you have in chis area?

**ANSWER.**

a. The total factor productivity increase of 1.1% reported in the 1986 *Comprehensive Statement on Postal Operations* was a result of cost containment efforts initiated in the fourth quarter of Fiscal Year 1985 and continued in Fiscal Year 1986, as well as favorable workload growth in the fourth quarter of Fiscal Year 1986. Since this productivity increase was in excess of three times the Postal Service's historical average increase, it is not unusual for the 1987 increase to be smaller, particularly if you keep in mind that maintaining service quality is also an important objective.

b. The Postal Service uses the multifactor productivity change as published by the Bureau of Labor Statistics (BLS) as a gauge for productivity comparisons because this is the best available measure for this purpose. This comparison has also been recommended to us by the Associate Commissioner for Productivity and Technology at the BLS since, as he indicated to us, the BLS does not have a specific industry measure similar to the Postal Service. We have considered the question of a proper gauge for productivity comparisons very carefully and reported our findings to the Board of Governors at their June meeting.

An essential problem arises from the lack of official and accurate data for productivity performance in the private sector, as shown by the table below.

MULTIFACTOR PRODUCTIVITY DATA AVAILABILITY

| SECTOR | SOURCE | DATA THROUGH |
|---|---|---|
| Private Nonfarm | BLS | 1986 |
| Manufacturing Aggregate | BLS | 1986 |
| Nonmanufacturing Aggregate | BLS (Unofficial) | 1986 |
| Individual Manufacturing Industries | BLS Research Paper | 1983 |
| Individual Nonmanufacturing Industries | Harvard University Press | 1979 |

The productivity data compiled by the BLS for the nonmanufacturing sector is only available on an unofficial basis because BLS has significant reservations about the accuracy of the underlying data. Data on individual enterprises is almost entirely unavailable.

Since Postal Service distribution functions (35% of total costs) are similar to manufacturing activities while delivery and retail (53% of total costs) are similar to nonmanufacturing activities, an extensive examination of all available data was conducted with the result that no reliable or reasonable comparable measures could be found for the subsectors of either of these broad components of the private economy. The conclusion, which was not based on "management's attempt to soften the situation," was that the only generally appropriate gauge for Postal Service total factor productivity performance was that of the total private nonfarm sector.

**QUESTIONS ON POSTAL SERVICE FINANCES:**

**QUESTION.** Last year, then-PMG Tisch instituted a cost saving or control program. What were the goals of that program and were they achieved?

**ANSWER.** The goal of the cost containment program initiated by Postmaster General Tisch in Fiscal Year 1987 was to save a total of $362 million in Fiscal Year 1987. A total of $149 million was actually accomplished.

**QUESTION.** During our deficit reduction negotiations last winter, senior level postal officials told us that achieving a savings of $160 million this year would be very difficult, because they already "scrubbed" over $1 billion dollars out of the FY'88 postal budget. When we asked for additional information in support of this claim, we were told that "budget development is an iterative process...the start (of which) is a budget call...containing pertinent parametric guidelines..."

a. Now, this is all very nice, but what I want to know is whether what was "scrubbed" was really a lean and mean budget or is this $1.1 billion soft savings--was it cut from a bunch of wish lists?

b. Can you provide the Subcommittee with copies of the original budget submissions for 1988, the revised figures after the scrubbing took place and, also, a copy of the prior years budget--so that we might satisfy ourselves with respect to the alleged $1.1 billion in cuts?

c. Can you explain how you were able to achieve savings of this magnitude, while the PMG's much more modest cost control effort of a few months earlier fell short?

**ANSWER.**

a. The $1.1 billion was mainly due to higher productivity targets resulting from more aggressive cost reduction program goals and more aggressive management of the workhour rate through a less costly mix of hours (i.e. more casuals, less overtime, etc.).

The Postal Service's preliminary budgets were submitted in response to parameters and assumptions that had been established by the senior staff at Headquarters and were designed to keep the Postal Service on a sound fiscal financial posture. The managers responding in the preliminary budgets were required to justify any increases over the parameters.

b. The information on the original budget submission is extremely voluminous but is available and can be provided if you desire. These original submissions have been provided to GAO.

c. The Postmaster General's cost containment program was implemented after the fiscal year had started and the programs were already in progress. The accomplishment of the 1987 cost containment goal required severe program changes and the redirection of resources. The reductions that were accomplished on the Fiscal Year 1988 budget requests were made before budgets were in place, thus allowing significant changes in direction to take place through the proper planning of our resources.

**QUESTION.** When we had our oversight hearing last March, there was considerable discussion about the additional cost the Postal Service would incur in connection with the new Federal Employees Retirement System (FERS), about $1 billion or the equivalent of a penny on the 1st class stamp. The assumed need for that money was included in the rate case filed last spring. As it turned out the FERS costs never materialized and it looked, for a time, that we might wind up with a 24-cent, rather than a 25-cent stamp. Unfortunately, during the time that the rate case was before the PRC, a billion dollars in unanticipated costs did materialize at the Postal Service--and, the chance for a 24-cent stamp was lost.

a. Given all the budget scrubbing and cost control efforts of last year, can you explain how the Service managed to incur a billion dollars in unforeseen costs in less than a ten month period?

b. Several of the cost elements that increased while the rate case was before the Postal Rate Commission were clearly within the ability of postal management to influence, if not control--wages and health insurance premium costs. In view of the fact that the rate case had been filed and the Service its revenue limits, do you think management did a good job in this area?

c. The Chairman of the Rate Commission said at our earlier hearing that the costs are nearly out of control at the Postal Service. Is there any reason why we should dispute her contention?

**ANSWER.**

a. The amounts included in the rate case were conservative estimates. The most significant differences involved increases in health benefit premiums over which the Postal Service has no control, the actual costs of the labor contracts which were estimated conservatively in the rate

case so as to not influence the negotiation process, and the lack of total success of the cost containment program.

b. Yes. Health insurance premium costs are determined by the Office of Personnel Management. The Postal Service has no control over health benefit premiums. The new labor costs were determined through a negotiation process and were within our overall planning tolerances. While it is true management does have some influence over labor negotiations, the reality of the bargaining process and binding arbitration deprive management of absolute control

c. The fact that a three-year cycle has been maintained and the Postal Service has essentially broken even over the last eleven years provides evidence that Postal Service costs are being managed. While it is true that the Postal Service has recently faced additional large increases, a significant portion of these are the result of factors not under our control, such as the implementation of FERS, health benefit costs, and the Omnibus Budget Reconciliation Act provisions.

**QUESTION.** General Press Release No. 22, dated May 3rd, states that estimated net loss for this fiscal year is $472 million and that the Omnibus Reconciliation Act impacts this years' bottom line by $350 million.

a. This release implies that, "but for" the Reconciliation Act the Service would only be $122 million in the red at years' end. Is this what the Service intended to say; and, if so, can you explain how this could be--the Act requires cost cutting and prohibits deficit spending to achieve goals?

b. What, by the way, was the original deficit projected for this year?

c. The rate case the Service filed assumed that new rates would go into effect in June. The Governors decided to put the new rates into effect two months early. What would the deficit have been this year, if the original implementation date had been observed?

**ANSWER.**

a. It is a fact that if all other variables remain equal, the loss would have been $350 million less in the absence of the Omnibus Budget Reconciliation Act. While the Act does require the Postal Service to reduce operating expenses by $160 million, it also increases Postal Service operating costs by an offsetting $160 million to pay for annuitant health benefit premiums and an additional $350 million for annuitant cost-of-living increases. It is important to note that the net income

or loss is on an accrued cost basis, not a cash basis like the rest of the Federal Government. The estimated net loss is not affected by the reductions in capital commitments required by the Act.

b. The 1988 President's Budget reflected an estimated net loss of $592 million in Fiscal Year 1988.

c. The projected net loss assuming a June rate increase would have been $1.371 billion.

**QUESTION.** When the rate case was filed last spring, the Service was projecting a surplus in fiscal year 1989--the first full year for the new rates--of approximately $1.6 billion. It now appears that the Service has scaled its projected 1989 surplus back to the $600 to $700 million range. Can you explain what has happened in the last year to cause this change?

**ANSWER.** When the rate increase was filed last spring, the Postal Service did not project a surplus of $1.6 billion. The Postal Service did project a break even in the test year which included a $1.3 billion contingency and a recovery of prior year losses of $200 million.

Due to the magnitude of the cost pressures facing the Postal Service when the rate case was filed, extremely aggressive cost reduction and cost containment targets were established and incorporated into the rate case. The Postal Service's intent was to do everything possible to hold the rates down. The aggressive cost reduction targets in the rate filing resulted in a total factor productivity goal of 2.2 percent for 1988 and a gross productivity goal of 4.1 percent. The Postal Service's internal operating plan for Fiscal Year 1988 reflected total factor productivity of 0.4 percent, or a reduction of 1.8 percent. Gross productivity was 1.9 percent, a reduction of 2.2 percent. The achievement of lower productivity in Fiscal Year 1988 than planned for in the rate case has an impact on Fiscal Year 1989 and is the most significant factor in Fiscal Year 1989 net income now being less than would have been realized if the Fiscal Year 1988 productivity had been achieved.

**QUESTIONS ON DEFICIT REDUCTION SAVINGS:**

**QUESTION.** Shortly after the Service announced that it would be achieving much of the savings required under the deficit reduction plan by cutting window service hours, I wrote your predecessor

suggesting that he look at a number of non-service activities--as an alternative to the hitting the mailing public.

Among the areas I suggested might yield some savings were: limiting ZIP+4 discounts to mail that was not properly prepared; terminating the hundreds of thousands in subsidies to the somewhat independent National Postal Forum; and putting the lid on expensive management conferences such as the one held at the Showboat Casino in Atlantic City (GAO fixes the cost as in excess of 86K)--perhaps making use of less expensive modern telecommunications technology for conferences. What changes have you made in these areas?

**ANSWER.** The Postal Forum will begin to assume as many direct costs as can prudently be assigned to it. There are on-going initiatives to ensure that ZIP+4 discounts are afforded only to mail that is prepared properly. Postal Service managers weigh the benefits and costs of conferences when making decisions regarding meetings and also try to take into consideration public perceptions of any actions they take in this area.

**QUESTION.** I keep hearing from the Postal Service and the public that window hours have been cut back 10%, on average. Yet, based on the information supplied to us by the Service, it appears that the $40 million saving this service cut was supposed to yield could have been achieved with only a 6% cut during the period from February through the end of the year. Why did the Postal Service inflict more pain on the mailing public than it appears from postal numbers was necessary?

**ANSWER.** The original target of a 10% reduction in window service workhours was refined to 9% prior to issuance to the field.

The Fiscal Year 1988 estimate of $40 million savings reflected gross potential savings less consideration for real, but qualifiable, start-up costs. These potential expenses included: delays in universal implementation due to local analysis of community needs; posting and bidding requirements; employee training as a result of bidding; public communications expenses (printing, direct mail, lobby signage and notices); workload shifts potentially impacting staffing during remaining hours; and increased workhours in other functions such as vending servicing and Stamps By Mail.

The savings projected in Fiscal Year 1989 reflected the full value of the workhours reduction. Workload shifts and/or increases occurring in Fiscal Year 1989 were to be absorbed.

Current projections indicate the savings from all deficit reduction measures are greater than anticipated. Following an

evaluation of the savings to date and a determination that the required operating expense reductions would be achieved, Postmaster General Frank announced, at the July meeting of the Board of Governors, that full window service hours would be restored effective September 10, 1988.

**QUESTION.** GAO informed us, at our earlier hearing, that the use of "casual-employees" was below the limit of 5% allowed under the collective bargaining agreement. It has long been thought, and Senator Stevens spoke to this at the hearing, that maximizing the use of casuals is one of the keys to holding down labor costs. Why is the Service operating below the allowable limit?

**ANSWER.** We believe the figures provided by GAO reflect the percentage of casuals in the total workforce. Contractual limits on casuals apply only to bargaining unit employees. Currently the Postal Service is operating close to contractual limits.

**QUESTION.** You have mentioned several times, of late, that you think the window service can be restored to previous levels in the near future. Does this mean you've found other ways to come up with the required savings; and, if so, do you have any insight into why these other savings opportunities were not considered previously?

**ANSWER.** Consistent with the above answer, we now believe the required savings from the operating budget will be achieved and, accordingly, full window hour service will be restored effective September 10, 1988.

**QUESTION.** The Comprehensive Statement shows that there was a 13% increase in the number of headquarters employees last year. Last week, GAO informed us that the $1 billion headquarters budget was increased by 7% for the current year. Just holding the headquarters' budget to its 1987 level--which, as I noted, was increased significantly over the preceding year--would have given the Service $70 million, half the required savings. Why was the headquarters budget ignored as a potential area for savings?

**ANSWER.** The reported increase in Headquarters and Headquarters related employees is a transfer of field functions to Headquarters administrative control. Many of these personnel continue to support field operations and remain physically outside the Washington, D.C. area.

The Headquarters increase of 6.9 percent includes field related units which are not part of the L'Enfant Plaza operation. Headquarters budgets had already been subjected to an extensive review conducted on an interdepartmental and program basis. A total of $250 million was reduced from Headquarters budgets after the Reconciliation Act.

QUESTIONS ON CONSULTANTS:

**QUESTION.** Last year I raised several questions about consultants at the Postal Service--whether the Board needed a $500,000 a year lawyer, and why the Service would pay someone with no postal expertise $900 a day (or part thereof) to coordinate the work of a number of high postal officials. I understand that the $900 a day fellow, John Garrity, has been seen around the 10th floor at L'Enfant Plaza. He isn't back on the Postal Service dole, is he?

**ANSWER.** The Postal Service's contract with Kendall Associates, with which Mr. Garrity was employed, ended on February 2, 1988.

**QUESTION.** Business Mailers Review reports that you have hired a consultant to help you explore opportunities for amending the Postal Reorganization Act to give the Service more flexibility in rate setting and other areas. Can you tell us about this consulting contract?

**ANSWER.** Mr. Richard Still is under contract with the Postal Service on a per diem basis to advise Stephen Miller, Assistant Postmaster General, Special Projects Department, on possible positive revisions to the Postal Reorganization Act of 1970. Mr. Still has extensive legislative experience, and we feel his advice and insights on the current opportunities to work with the Congress in the interests of enhancing service to the American public will be most helpful.

Mr. Still receives $400 per day. The contract is for a six-month period which began in May, and it may be extended an additional six months. The maximum amount Mr. Still may be paid for the six-month period is $40,000. He is reimbursed for approved travel and expenses.

**QUESTION.** We will be commencing a government-wide review of the use of consultants--both individuals and contractors. We have already gotten some information from the Service on its use of consultants, but I'm not sure we captured the entire universe.

I know, for example, from last year's hearing, that your technology shop had an open-ended consulting contract with one firm for something on the order of $16 million. Can you provide us with a list of all the consulting contracts the Service has, including so-called technical services contracts?

**ANSWER.** As we said in our February 10, 1988 response to Senator Pryor, our ability to cull pure consultant contracts from our national data base of service contracts is limited. Also, due to the short time span allowed, we have not been able to properly review our files in order to provide you with a thoroughly reliable list of all the Postal Service's consultant and technical study contracts. The list is being compiled and will be provided to the Subcommittee under separate cover.

We are currently working to upgrade our management information systems and our sorting codes to more fully capture and catalog this important data. Our new system is due to come on-line in 1989.

Also currently being revised is our Management Instruction (as shown below) on the subject of contracting for consultant and study services with the aim of establishing more cogent definitions and tighter management controls.

You specifically alluded to one contract in your question. We assume that you are discussing the Technology Resource Department's contract with the Arthur D. Little Corporation to provide long-term support to that Department. This contract was awarded competitively in 1983. Arthur D. Little has established a separate facility in Washington, D.C., called the Technology Resource Center. This organization is completely dedicated to the needs of the Postal Service. It works on a task-order basis, and each individual task is approved by the Postal Service. Currently, these tasks include:

- Automatic Postal Teller;
- National ZIP+4 Directory;
- System Trade-off Model;
- Materials Handling;
- General support for the Technology Resource Department.

**OFF-BUDGET QUESTIONS:**

**QUESTION.** There has been considerable discussion this year about taking the Postal Service off-budget. I expect the House to send us a bill address this issue before the end of June. I support what I understand to be the objectives of this exercise--that is, insulating the Postal Service from OMB and the vagaries of the general deficit reduction process. However, I am not sure just how the House bill achieves these objectives. Can you give me the Postal Service's view as to what exactly happens with enactment of the House bill--how does it insulate you, does it relieve you of your obligations under the Reconciliation Act?

**ANSWER.** The House bill does not relieve the Postal Service of its obligations under the Reconciliation Act through Fiscal Year 1989. We believe, however, that it would better insulate the Postal Service from the arbitrary pressures of political policies during future budget years.

**QUESTION.** Aside from purporting to take the Service off-budget, the House bill increases the Service's borrowing authority and triples the Service's long-term debt authority, raising it to $30 billion.

a. How much debt is the Service currently carrying and what does it cost you to service that debt?

b. What are your plans relative to incurring more debt and what is this going to do to the price of a stamp?

c. When a public utility makes a bad capital investment, the public utility commission will usually protect the rate payors. If The Postal Service is going to be borrowing and building, do you think we need to develop a mechanism to ensure that the mailing public does not bear the burden of a bad decision by postal management, as was the case with the billion dollar bulk mail center fiasco back in the seventies?

**ANSWER.**

a. Currently the outstanding debt is $6.103 billion and the annual interest cost for Fiscal Year 1988 is estimated to be approximately $511 million before interest capitalization.

b. The Postal Service intends to continue borrowing for capital investments if our debt limit permits. The interest expenses associated with whatever borrowings occur will be included in the next rate case. Only the interest on the loans, less the capitalized interest, is included in the rate case calculation upon which rates are based.

c. Unlike public utilities, Postal Service rates do not allow for profit margins. The impact of all decisions must be passed directly into the rate structure.

**QUESTION.** Two weeks ago, the Administration sent up a legislative proposal calling for payment by the Postal Service of the cost of medical insurance and COLAs for its annuitants. If you have had an opportunity to review that proposal, I would be interested in any comments you might have. Also, I was curious as to whether the Administration had contacted the Service about making these payments a *quid pro quo* for taking you off-budget?

**ANSWER.** The Administration has not contacted the Postal Service about making payments for COLAs and health benefits for annuitants as a quid pro quo for taking us off-budget. We have had the opportunity to review the OPM proposal regarding COLAs and our comments are as follows:

a. The OPM proposal is retroactive. It requires the Postal Service to fund costs associated with individuals who have previously retired. This asks current and future ratepayers to fund costs associated with prior mail service. The Congress rejected this approach as inequitable at the time of the Postal Reorganization Act (PRA).

b. It requires the Postal Service to fund the liabilities of the Federal government. A review of the PRA and comparable situations in the private sector clearly indicates that the pension liabilities for time worked in the Post Office Department and in other Federal agencies is clearly the responsibility of the Federal government, not the Postal Service. Such treatment is also inconsistent with the Administration's position on Workers' Compensation liabilities of the old Post Office Department.

c. No provision has been made to phase the additional cost into the rate base. The proposed legislation would significantly impact the Postal Service's financial position and would accelerate the next rate case.

**QUESTION.** Do you think applying the 3/5 vote requirement contained in the Budget Act for any changes in Social Security to the Postal Service would do more to really insulate the Service than would the House bill? Could you explain?

**ANSWER.** We believe that being off-budget provides the independence the Postal Service needs to carry out its mandate under the PRA. The three-fifths vote requirement would not.

**MISCELLANEOUS QUESTIONS:**

**QUESTION.** The Stars and Stripes reported last month that serious problems have developed with the delivery of mail to members of our armed forces stationed in Europe and the Persian Gulf. Mail is delayed and, sometimes, damaged as it waits for delivery from the Continental United States. What is the Service doing to overcome these problems?

**ANSWER.** The Military Postal Service Agency (MPSA) informed us of excessive mail transit times experienced by military personnel overseas in February and March of this year. We supported the effort of the Military Postal Service Agency to send a team to Europe to obtain data which would more accurately determine the possible causes of delays. The information provided by the Military Postal Service Agency team indicated the major problem contributing to the mail delays was air carrier mail transfer operations at overseas locations. With this information, we took specific action to correct the problem by adjusting routings and utilizing alternate air carriers. Since taking these actions, we have received from the overseas military postal commands, reports noting a significant improvement in the transit times of mail. Additionally, the Director, Office of Transportation and International Services, and the Program Manager, Military Mail Operations, went to Europe to brief military commanders of joint USPS/MPSA efforts concerning the entire military mail network with specific emphasis on focusing on the service performance issue. They also used the opportunity to make a first hand assessment of the situation.

The issue of damaged mail pertained to mail getting wet at some point in the processing cycle prior to delivery. After consultation with MPSA, the Postal Service agreed that until such time that the operational or transportation deficiencies causing the mail to get wet could be identified and corrected to everyone's satisfaction, plastic liners would be placed in all nylon mailbags containing military mail. This procedure was instituted on June 17, 1988.

**QUESTION.** We get quite a few complaints about the length of time it takes for mail to be delivered. The Postal Service has kind of mixed apples and oranges over the years touting its overnight delivery standards while, in fact, it was really measuring the internal movement of mail between post offices. Some people now think that if the Service's 95% claims for overnight delivery are accurate, then they must personally be getting the 5% that's late. What does the Service intend to do to help the public better understand what they can really expect in the way of overnight delivery?

**ANSWER.** The overnight delivery standards of the Postal Service do not imply a guarantee. Rather, they are the goals it aims to achieve. Our current system of measuring performance against these standards uses elapsed days from the date of the postmark at origin to arrival at the carrier's workstation at the delivery post office. This measurement system assumes timely sweeping of street collection boxes as scheduled at origin, and delivery of First-Class Mail on the same day that it is given to the carriers at their workstations.

We recognize the need for a more complete measurement of elapsed time from deposit to delivery and will be working on developing such a system. Such a system, however, would need to be in place for some length of time before we could use it reliably to predict what the public may expect of our service.

In the meantime, the public can expect that we will aim for, and frequently achieve, overnight delivery of 95% of the committed First-Class Mail to locally designated areas. Our Express Mail service, of course, carries a money-back guarantee of overnight delivery to and from cities on the Express Mail network.

**QUESTION.** The Postal Service just put a new, lower Express Mail rate into effect. Now the Service is asking the PRC for authority to have total rate flexibility for this type of mail.

a. Why does the Service spend so much time and energy on an area that generates so little revenue?

b. The rate charged for a particular type of mail is supposed to cover the cost of handling that type of mail, plus a contribution toward institutional overhead. Cross subsidization is not allowed! Now, if the Service gets pricing flexibility for Express Mail, how will it go about ensuring total cost coverage?

**ANSWER.**

a. First, it is worthwhile to note that Express Mail rates were increased two percent on average. The only real decrease was the new rate of $8.75 for letters weighing less than eight ounces. Formerly, those items were assessed the same $10.75 rate as a two pound parcel. Many other rates increased substantially. Express Mail is important to the Postal Service:

   - It is expected to generate $500 million in revenue in Fiscal Year 1989.
   - It is expected to contribute $200 million to postal overhead costs in Fiscal Year 1989.

- Without that contribution, other rates would have to be increased by $200 million.
- The overnight delivery market continues to grow rapidly. Therefore, Express Mail offers the prospect of additional contributions to overhead costs in the future.

b. We need additional flexibility to maintain Express Mail's contribution to the Postal Service's financial health. Favorable Postal Rate Commission action on the Postal Service's petition for accelerated Express Mail ratemaking procedures will enhance our ability to respond to competitor strategies in this highly competitive market and help us maintain Express Mail's contribution to the Postal Service's institutional costs. Moreover, the Postal Service does not propose total flexibility.

- This proposal is not intended to allow the Postal Service to change rates for Express Mail from the rates recommended in the general rate increase unless some intervening event has taken place in the market for Express Mail which was not taken into account when the Commission recommended the original rates.

- Under no circumstances, would rates go below attributable cost levels. Therefore, revenues from other mail classes would not be used to recover the costs of Express Mail.

- The procedure is designed to help maintain the contribution to overhead costs from Express Mail which would otherwise be lost because of intervening events (e.g., price reductions from competitors designed to erode postal volumes).

- Lost contribution due to declining volume will have to be recovered by rate increases from other mail categories.

- Other parties can object to the proposed rates. The Commission will hold expedited hearings on contested issues of material facts before any change of rates can be recommended to the Governors.

**QUESTION.** Each year Congress appropriates hundreds of millions of tax dollars for "revenue foregone." This money is supposed to cover the difference between what preferred rate mailers (small newspapers, nonprofits and the like) pay and the rate commercial mailers pay. Mailers have to get a permit--approval from the Postal Service to mail at the lower preferred rates. I have two items here: a travel brochure mailed under the permit of a university alumni association and and a gift catalogue from a conservation group. The later indicates that the organization lending its nonprofit permit gets a 6 1/2% "royalty" on gifts its members purchase from the catalogue.

a. Would you agree that, if we limited improper use of nonprofit permits, we would be able to cut the revenue foregone appropriation--saving the taxpayer some money?

b. Are the purely commercial uses of nonprofit permits I described above proper?

c. How does the Postal Service police the use of nonprofit permits?

**ANSWER.**

a. Any enforceable limitation Congress placed on what can be mailed at the nonprofit rates would have such an effect.

b. Represented to the Postal Service as a service to their memberships, it is quite common for nonprofit organizations to present nonprofit rate mailings of a commercial flavor such as the two you have mentioned. The answer as to whether or not the mailings are acceptable can be difficult to determine at a glance. We have to be concerned with whether the mailing truly is just for the benefit of the organization's members or whether it is of more real benefit to someone other than the permit holder. For example, a university alumni association may on its own wish to offer a travel plan to its members. In doing so it could employ the services of a travel agent mentioned in its brochure which is included in a mailing at the nonprofit rates to members making the plan available. On the other hand, a travel service could approach a university alumni association with an offer to sponsor a travel plan which in reality is of little value to the alumni association, but which permits the travel service to make use of the association's nonprofit permit. Other examples of products and services offered to members in nonprofit rate mailings include such things as insurance (health, life, and automobile), seminars, and discounted merchandise.

c. Mail accepted at the nonprofit rates is subject to examination at the time of acceptance and throughout the processing system. The Postal Service attempts to detect improper mailings in this manner. When a mailing is presented such as the travel plan mailing described earlier, we must attempt to determine who is the real beneficiary of the mailing by looking beyond the content of the mail piece. In some cases, potential improprieties are brought to our attention by the mailing public. Enforcement of regulations is handled on a case-by-case basis upon investigation of the arrangements, agreements and understandings between the nonprofit organization and other concerns.

When mail is examined by postal personnel at the time of acceptance and it is determined that the piece, on its face,

is improper (that is, the mail is not solely the authorized nonprofit organization's own mail), two courses of action may be taken. One, the mailer, when notified of the determination, can agree the mailing is improper. The post office simply collects regular bulk rate postage in such cases and the matter is closed. On the other hand, the mailer may disagree with the determination. In those cases, the mailer is allowed 30 days to appeal the decision in writing to the General Manager of the appropriate Rates and Classification Center. The mail is accepted at the regular bulk rates, but a record is kept of the difference between the amount paid at regular bulk rates and nonprofit rates. If the mailer's appeal is sustained, the difference is refunded to the mailer.

When information is received from competitors of individuals alleging that a mailing was improper, it is investigated and, if determined to be improper, a demand is then made for additional postage. Appeals of such cases may be to the Rates and Classification Center or to Headquarters depending on who issued the initial decision that use of nonprofit postage rates was inappropriate.

**QUESTION.** Next year there will be a meeting here in Washington of the Universal Postal Union (UPU)--the U.N. of the postal communities. One of the issues this group deals with is establishing so-called terminal dues. (Terminal dues is money one country pays another to cover cost of delivering mail, when there is an imbalance in volume between the countries. Remember, it is the originating country that gets the money for the stamp its resident puts on outgoing, foreign mail.)

Now, I understand that the last two times the UPU met, the United States--a mail exporter--took a real beating in the terminal dues area. The dues were doubled in 1980 and increased 5-fold in 1986. This means we are paying a lot of money to foreign countries for deliver of U.S.-originating mail, without regard for the actual cost to those countries.

What does the Service plan to do in the upcoming conference to protect the U.S. mailing public, which ultimately foots the bill for inflated terminal dues payments?

**ANSWER.** At the 1979 UPU Congress in Rio de Janeiro, terminal dues were increased from 1.5 gold francs per kilogram to 5.5 gold francs per kilogram, effective January 1, 1981. At the 1984 UPU Congress in Hamburg, the terminal dues rate was increased to 8 gold francs per kilogram, effective January 1, 1986. The UPU terminal dues structure is based strictly on the overall weight of mail in imbalance, disregarding the differences in handling and

delivery costs among different kinds of mail. The effect is that the heavier publication mailings bear terminal dues costs that might exceed the actual costs of the destination country, while the terminal dues on light-weight items do not cover their costs. This illogical structure is particularly burdensome to U.S. mailers since the outbound mails are primarily made of heavier publication mailings and the inbound mails contain primarily letter size mail.

The terminal dues issue has been analyzed formally within the UPU prior to each of the last two UPU Congresses. In each case the formal study produced a terminal dues proposal with different rates for letters than for publications. The Postal Service strongly supported each of these proposals. However, the developing countries generally opposed these proposals since they believed they could derive more bottom line revenue from industrialized mail exporting countries under the single rate per kilogram system. With one vote per country, these countries easily controlled the outcome on this issue.

A working group of UPU member administrations is again conducting a study of the terminal dues issue which will result in a new proposal for the UPU Congress to be held in Washington, D.C. next fall. If adopted, the current draft proposal would correct most of the problems with the present UPU system. The Postal Service is a member of this working group and has taken a lead role in developing information to support a better terminal dues structure.

Many of the UPU members feel that one of the reasons the more rational terminal dues proposals have failed in the past was that the developing countries did not fully understand how they worked. In order to ensure a better understanding among the developing countries, the UPU has planned an extensive program of materials and discussions to assist these countries with the technical details of the new proposal. One facet of this assistance is to produce a pamphlet that would be sent to each UPU member country, explaining in readily understandable terms the nature of and reasons for the proposed changes to the current system.

Following the circulation of the pamphlet, there will be "roundtable" meetings within each geographical region to discuss and further explain the new proposal and to seek concurrence with the new system. A final roundtable will be held at the UPU headquarters next spring in an attempt to build maximum support for a new system. The Postal Service is assisting with the development of the pamphlet and will lead the discussions at the roundtable for our regional group of countries. The Postal Service will also make every effort to support the new proposal at the larger roundtable meeting next spring.

In addition to these efforts that are a formal part of the UPU program to support a better terminal dues structure, the Postal Service will be working to gain support as it meets with other postal administrations in a bilateral context.

The Postal Service is also attempting to address the terminal dues problem outside of the UPU context. A number of European countries have proposed a much more equitable terminal dues structure which takes a giant step in the direction of correcting the problems the Postal Service and its customers suffer under the current UPU system. Under the European system, terminal dues are based on both the number of items and the weight in a formula that relates much more closely to the costs of handling and delivering various types of mail.

The Postal Service has indicated its interest in participating in this new system and currently is working with its European trading partners to establish the necessary sampling and operational details to implement it. Once the new system is in place, the Postal Service will be in a much better position with respect to the pressure on rates for publications. In general, the more rational European structure will improve the Postal Service's ability to establish the most favorable rates for all of its international mail customers.

Thus, the Postal Service will be working on both the multilateral and bilateral fronts to improve the terminal dues structure that now adversely affects the U.S. mailing public.

## QUESTIONS FOR POSTMASTER GENERAL FRANK
## SUBMITTED BY SENATOR STEVENS

**QUESTION.** I noted that in 1987 there were 222 candidates chosen for the Postal Career Executive Service (PCES). How many of those 222 individuals were from Alaska?

**ANSWER.** There is one PCES Candidate in Alaska. Paul Larson, Anchorage, Alaska, was selected in 1987.

**QUESTION.** Earlier this year, there were press reports on the increasing number of criminal investigations by the Inspection Service dealing with theft, narcotics and Workers' Compensation Program abuse. Can you, for the record, provide us with the number and percentage of increases of these criminal investigations, and more importantly, can explain why this increase is occurring?

**ANSWER.** As was stated by Inspector C. W. Lawrence in the January 5, 1988 issue of *The Washington Times*, there has been a noticeable increase in investigations of certain employee committed crimes over the past three years.

Since 1985, employee dismissals for theft increased 38 percent; phony workers' compensation claim firings jumped 54 percent, and narcotics related removals rose 15 percent.

Inspector Lawrence made the point then and we reemphasize now that "We are just a microcosm of society. The same things that affect the general public affect us." The Inspection Service, like other law enforcement organizations in the federal, state and local governments is actively trying to identify and prosecute those guilty of these crimes and to put into place new and improved prevention methods that will reverse the present trend. We realize all too well the adverse impact employee crime has on our Service and on our customers. Employee thefts not only jeopardize the security and integrity of the U.S. Mail, but also rob our nation's postal system of revenue. In the case of fraudulent benefits claims, we also experience a cost increase because, in addition to financial compensation paid to the claimant, we must hire a replacement for that person. Employees who are dismissed for narcotics related reasons represent a threat to the safety of themselves and their coworker.

It is for these reasons the Postal Inspection Service has renewed its emphasis on identifying and investigating and taking appropriate administrative or criminal action against those who

defraud the Postal Service and waste or abuse the resources, benefits or privileges it offers its employees. This renewed emphasis has resulted in more identifications, arrests, and convictions, accounting for what appears to be an upward trend in employee misconduct.

**QUESTION.** Should we then consider initiating a drug testing program for postal employees?

**ANSWER.** The Postal Service recently awarded a contract to PHARMCHEM Laboratories to perform urinalysis screening for an "applicant drug screening program." This contract and the program it supports are key parts of the Postal Service's continuous efforts to assure a drug free work place. Although we have no plans for random drug testing of employees, we do have other aspects of our policy to assure a drug free work place which consist of:

1. Employee Assistance Program (EAP) effort;

2. Inspection Service Criminal Investigations and Prevention activities;

3. Communication efforts for drug education and awareness; and

4. Employee drug testing on a "for cause" basis, during a fitness-for-duty examination.

**QUESTION.** Again, it was reported that you would consider reestablishing full window hours after legislation removing the Postal Service from the Federal budget becomes law. As you know, the Senate has enacted a Senate Resolution, expressing the sense of the Senate to take the Postal Service off-budget. However, your comment implies that the Postal Service will not move on the window hour issue until Congress passes legislation sought by the Postal Service. What is in the pending law that must be changed, by legislation, to allow the Postal Service to restore window service?

**ANSWER.** Nothing in current law must be changed prior to the restoration of window service hours. These hours were curtailed by postal management as one of a series of administrative actions necessary to achieve the reductions in our operating budget required by the Omnibus Budget Reconciliation Act of last year. On July 8, the Postmaster General announced that full window hour service would be restored effective September 10, 1988. Of course, if the requirement to reduce our operating expenses by

$430 million over Fiscal Year 1988 and 1989 did not exist, reduced window hours and other service cutbacks would not have been necessary.

**QUESTION.** Is it really necessary for Congress to act into law an off budget bill before you can restore those window hours?

**ANSWER.** No. As noted above, the reduction in window hours was in partial response to the requirement that the Postal Service reduce its operating expenses by $160 million in Fiscal Year 1988 and by $270 million in Fiscal Year 1989. However, enactment of the pending off-budget legislation would make it less likely that the Postal Service and its operating budget would be subject to future use for Federal deficit reduction or budget-balancing purposes.

**QUESTION.** Some years ago, I wrote to former Postmaster General Bolger on the practice in the Soviet Union of interfering and/or intercepting U.S. mail destined for Soviet citizens. Is this interference by the Soviet Government still a problem?

**ANSWER.** The U.S. Postal Service continues to receive complaints about interference with mail to the Soviet Union and continues to communicate with Soviet officials regarding these complaints and to coordinate with the Department of State regarding efforts to pursue the issue through diplomatic channels.

There have been signs of progress in discussions with the Soviets during the past year. Although there certainly continue to be problems, we are hopeful of further progress, at least while the Soviets continue their experiments with glasnost and perestroika.

The Soviet handling of return receipts has been a primary focus of Postal Service efforts to improve Soviet accountability for mail. We improved our leverage on this issue at the 1984 Hamburg Congress of the Universal Postal Union (UPU) by gaining the adoption of a provision requiring administrations to give priority to obtaining addressee signatures on delivery receipts. It was not possible to make this requirement absolute, however, and the UPU Convention still permits delivery receipts to be signed by postal officials when this is permitted by internal regulations--which is the case with the Soviet Union.

We have continued to pursue this issue directly with the Soviets, however, and may be making progress. The first sign of this came with a change of position by the Soviets regarding a dispute over the delivery of ten registered items. The Soviets persisted in claiming these items had been delivered despite evidence to the contrary which we had furnished. Last September the Soviets

conceded they were unable to furnish proof of delivery, which they might have been able to do had they obtained addressee signatures on delivery receipts, and agreed to resolve the matter by indemnifying the senders.

In recent correspondence the Soviets have advised that their regulations permit obtaining addressee signatures for registered items designated for delivery to the addressee only (restricted delivery), and indicated they would consider changes in regulations which would also permit obtaining addressee signatures on delivery receipts for nonrestricted delivery registered items.

The Postal Service has also focused attention on complaints regarding parcels returned by the Soviet Union as undeliverable which the senders claim were deliverable. Recent data indicates a significant decline in the rate of parcels being returned because of claimed violations of Soviet prohibitions. In 1986, of 134,770 parcels sent from the U.S. to the Soviet Union, 9,121, or 6.7 percent, were returned. Of 126,359 parcels sent in 1987, 4,588, or 3.6 percent, were returned.

The Postal Service recently completed a special four-month survey of parcels returned from the Soviet Union, ostensibly because they contain items violating Soviet customs regulations. As a result of this survey we have been able to provide mailers with better advice about Soviet regulations and the particular Soviet prohibitions causing problems for our mailers.

In December of 1985 the USPS issued a new publication to help U.S. mailers in their efforts to send letters and parcels to addressees in the Soviet Union. This booklet, Mailing to the Soviet Union, Publication 269, provides information on Soviet prohibitions and practices, and advice on what to do if mail is interfered with. This publication was updated in March 1987, and copies were distributed to mailers and to post offices identified as the primary points of origin for mail going to the Soviet Union.

The Postal Service also took steps to help mailers comply with a new Soviet requirement that customs declarations be completed in French or Russian, as well as English. The Postal Service developed a list of French translations for items typically sent to the Soviet Union, and distributed this list to all post offices and to organizations assisting Soviet mailers.

The Postal Service also works closely with the Department of State on the Soviet Mail problem. During 1986 the Soviet mail interference issue was raised at both the Bern and the Vienna meetings of the Conference on Security and Cooperation in Europe (CSCE).

In 1987 the U.S. delegation to the Vienna CSCE submitted a proposal, based on USPS recommendations, calling upon

participating states to agree to respect the privacy and integrity of postal and telephonic communications. The proposal also called for action on specific measures to improve accountability for mail in accordance with UPU regulations. These measures include obtaining addressee signatures on delivery receipts. The Postal Service has helped develop support for this proposal through contacts with postal colleagues in CSCE member countries.

We hope that by pursuing this issue in direct discussions with Soviet postal officials and through diplomatic channels, the Soviets will continue to take steps in the direction of improved accountability for mail and more reliable postal communications.

**QUESTION.** Many of us are greatly concerned about the ability of the Postal Service to compete in the next century, while still providing the basic service the public now receives at a reasonable cost. What is your budget for research and technological development, both in terms of actual dollars and percentage of total budget?

**ANSWER.** The Postal Service has found it most effective to rely upon the private sector for most basic research and technological development and, therefore, maintains only a modest budget in this area, as reflected below.

| BUDGET FOR: | ($ in millions) FISCAL YEAR 1988 | FISCAL YEAR 1989 |
|---|---|---|
| RESEARCH PROGRAM: | | |
| Contractual Services | 16.4 | 19.2 |
| Salaries and Benefits, Etc. | 18.4 | 19.3 |
| TECHNOLOGY RESOURCE DEPT. | 24.4 | 25.7 |
| TOTAL RESEARCH AND TECHNOLOGICAL DEVELOPMENT | 59.2 | 64.2 |
| TOTAL OPERATING BUDGET | 36,614 | 38,200 |
| PERCENT RESEARCH AND TECHNOLOGICAL DEVELOPMENT BUDGETS TO TOTAL OPERATING BUDGET | 0.16 | 0.17 |

We recognize that the development of new technology is essential to containing costs and we will continue to push for the development and procurement of state-of-the-art equipment through private industry. This effort will result in capital commitments of $143 million in Fiscal Year 1988 and $645 million in Fiscal Year 1989 for new automation and mechanization equipment.

**QUESTION.** Do you have projections for the next 5 years that you can share with us?

**ANSWER.** Our Fiscal Year 88-92 Capital Investment Plan allocated $2.7 billion for new mail processing technology. Some increase is expected in the Fiscal Year 89-93 Plan which is now being assembled, but the total should be in about the same range.

**QUESTION.** Can you tell us some of the kinds of problems you are working to resolve with your technology staff to give us a feel for just what you are doing?

**ANSWER.** The following research programs are underway:

- Electro-Optics and Character Recognition
- Materials Handling
- Code Printing, Scanning and Labeling
- Man-Machine Interfaces
- Advanced Collection/Acceptance Systems
- Advanced Address Systems
- Advanced Retail Systems
- Advanced Distribution Systems
- Advanced Delivery Systems
- Advanced Decision Support Systems

**QUESTION.** I realize the sale of stamps in various grocery and convenience stores has really just begun, but since its inception, have you noticed any diminution in sales in post offices, or even shorter lines at post office counters?

**ANSWER.** Sales revenue to date from the Stamps on Consignment Program is approximately $100-150 million and by next year is expected to reach $500 million. When we compare this revenue against the total stamp revenue of $7.2 billion, you can see that even the $500 million program goal will represent less than 7% of our total stamp sales.

While this program will probably not significantly impact post office sales, it may have some impact, although not measurable, on post office lines by removing the stamp booklet sales from the post office.

Stamps on Consignment is just one of our Easy Stamp Services, which, along with Stamps by Phone, Stamps by Mail and Vending, are intended to provide a convenient means for our customers to obtain their basic "bread and butter" postage needs without having to go to the post office.

**QUESTION.** Do you have plans to expand either outlets for stamps or the sale of other postal items, or services in such chains?

**ANSWER.** We are currently targeting the 35 largest food chains for expansion of this stamps by consignment program and, to date, we have 18 of these chains signed up to participate. We also intend to contact the large drug chains and greeting card stores in the future and seek their participation. Of course, the program is available to any retail chain that can qualify. A copy of our Consignment Policy, which outlines these qualifications follows.

# CONSIGNMENT POLICY

## CONSIGNEES

The Postal Service will consign First Class postage stamps only to a firm engaged in selling a product directly to the general public at an established retail outlet. The consignee's business must be accessible to all segments of the public, including minors, and the consignee's product line must be compatible with the image of the Postal Service as a Government Agency.

Examples of possible consignees include, but are not limited to: food stores, convenience stores, drug stores, banks, card shops, credit unions, private stamp vendors, and commercial mail receiving agencies.

## PRODUCTS

Products available for consignment will generally include stamp booklets of 12 25-cent stamps ($3), stamp booklets of 20 25-cent stamps ($5) and rolls of 100 25-cent stamps ($25). The minimum consignment consists of full cartons (300 books) of the stamp booklets and/or a flat (50 rolls) of the rolls of 100 25-cent stamps. Products available to private stamp vendors will vary depending upon vending machine configuration. Commercial mail receiving agencies must agree to consign all First-Class stamp products, as well as Express Mail and Priority Mail products, including envelopes or packaging materials.

## FACE VALUE

All postal products must be sold to the general public at no more than face value. The postal products may be sold at less than face value.

## ADVERTISING

The consignee agrees to provide advertising both within its retail establishment and in conjunction with their own outside advertisement sufficient to make its customers generally aware of the availability of the postal products. Commercial Mail Receiving Agencies selling products or services in competition with the Postal Service must provide advertising equal to that provided for the Postal Service's competitors.

## CONSIGNMENT PERIOD

The Postal Service will consign postal products for a period of 30 days to retailers with fewer than 25 outlets. Consignees with 25 or more retail outlets who agree to make distribution of the products through one distribution point will be allowed a 45-day consignment.

**QUESTION.** On page 24, table eight of your Comprehensive Statement, you make projected mail volumes. Were these projections based on the current postal rates?

**ANSWER.** No. They were based on the rates proposed by the U.S. Postal Service in its Docket R87-1 filing.

**QUESTION.** I noted that for 1988 you projected a 1% loss in express mail volume. What is the growth rate for express mail in private industry, if any?

**ANSWER.** The volume of pieces sent for overnight delivery within the total expedited market increased by 20 percent in the past year. Express Mail growth was 3.5 percent. The projected 1 percent decline for Express Mail in 1988 was based upon trend forecasting that does not take into account recent improvements in service performance and prices. Express Mail volume growth in 1988 is expected to reach 10 percent as a result of the introduction of morning delivery in major markets and the new $8.75 letter rate.

**QUESTION.** How has the boom in the use of facsimile effected express mail or mailgrams?

**ANSWER.** While industry analysts have been speculating that the increased use of facsimile is impacting the growth of overnight physical delivery, there has been no conclusive study to date to confirm this. The expedited market has continued to grow at 20 percent to 22 percent for the last two years. The Mailgram service has been on the decline for several years due to the more competitive service value available in the overnight services. The Mailgram service costs about the same as an overnight letter but offers a two-day service. Western Union can provide more detailed explanation on the current market position of Mailgram service.

**QUESTION.** I understand that the OMB and the President's Council on Management Improvement released a report urging the Postal Service to address labor related costs in order to maintain current levels of service and reasonable rates. Although I have only read about this report, I understand it makes other recommendations which appear to make some sense, such as:

- streamlining postal rate setting process to allow greater flexibility in introducing price services

- expand to new markets to offer new or non postal services at postal facilities
- create increased customer services and marketing orientation
- improve measurement of service performance
- increase service spending in the area of research and development

a. Has there been such a report issued to you, and if so, what are the main components?

b. What suggestions seem reasonable to you and what is the Postal Service doing about them?

**ANSWER.**

a. A report, entitled Meeting Public Demands: Federal Services in the Year 2000, was prepared by a project staff under the direction of the Assistant Secretary of the Treasury for Management, at the request of the OMB Director and the Deputy Director of the President's Council on Management Improvement. The first two recommendations contained in the chapter on Postal Service were to control labor costs and to contract out for services. The other five recommendations are as you have summarized above. The abstract in the report states that the views expressed in the report are solely those of the authors and that no opinions, projections or recommendations can be attributed to Treasury, OMB, or any other Federal organization.

b. The five recommendations are general in nature and, as stated, seem reasonable. There are two with which we agree emphatically. In fact, we probably were the initiator of them: the first suggesting increased flexibility in introducing and pricing new services, and the second, improving the measurement of service performance. Actions we have undertaken which provide evidence of our resolve in these areas are first, the recent filing with the Postal Rate Commission for latitude in pricing Express Mail Service given the competitive market, and second, upgrading our Consumer Advocate to full department status and assigning that department oversight responsibility for service measurement reporting directly to the Associate Postmaster General - Systems.

**QUESTION.** Although we, in all honesty, have not received a lot of complaints about the Postal Service, the one complaint we hear repeatedly, and more often than any other, is consistency within the service--this being an individual's inability to gauge how long it takes to get a letter delivered from point A to point B.

What is management's preference, consistency of delivery, or speed?

**ANSWER.** Our preference is for consistency of delivery. The Postal Service has established service commitments which are tailored to provide our customers with consistent service.

**QUESTION.** Which is more expensive?

**ANSWER.** Speed is more expensive. The Postal Service extends its networks as far as possible in order to furnish consistent delivery, balanced by operational and transportation-related budget constraints. When speed is essential to a customer, the Postal Service does offer Express Mail service at a higher rate.

**QUESTION.** The service standards outlined in your comprehensive statement indicate that 96% of the time, overnight First Class mail is delivered on time. This is admirable, and I congratulate you. However, as I understand it, you measure the delivery time of a letter in a standard such as, from Post Office A to Post Office B, as opposed to, from the time a individual mails it to the time the recipient receives it. Do you have statistics that will show us what your service standards are from pickup to delivery point?

**ANSWER.** The 96% you refer to is a measurement of performance against our overnight standard. This statistic is derived from our Origin/Destination Information System (ODIS) which measures, among other things, performance from the date of the postmark at origin to arrival at the carrier's workstation at the delivery post office. This measurement system assumes timely sweeping of street collection boxes as scheduled at origin and delivery of First-Class Mail on the same day that mail is given to the carrier at his/her work station. We do not have statistics on service times from pickup to delivery point.

**QUESTION.** In your Comprehensive statement, you indicate that you have three objectives with regards to the customer--know them better, serve them better, and accommodate them in every feasible way. As I understand it, one of the major pushes this year by the large mailers, is to obtain discounts for palletization. In other words, having the mailer palletize mail for destined points. Does this make sense for the Postal Service?

**ANSWER.** In many circumstances, palletized mail is beneficial to the Postal Service. It is especially true in instances when large

quantities of mail are transported intact for long distances through several postal facilities. In those situations, one pallet is handled at each facility rather than 25-50 sacks of mail.

However, in other instances, pallets may be more costly to handle. As an example, a mailer might deposit a pallet at a postal facility where the mail is unloaded and sorted into 35 sacks which are sent to separate destinations. If that mail was received from the customer in sacks, then the post office would have avoided the costly sorting operation. Therefore, it is difficult to state, unequivocally, that palletized mail always makes sense for the Postal Service.

In addition, postal facilities were designed to handle sacked bulk mailings rather than palletized bulk mailings. Consequently, pallet handling capacity currently is somewhat limited. We are working to remedy that limitation, but a substantial amount of work is necessary at some offices.

It is also important to note that many of the mailings which are primary candidates for palletization are already palletized. In those instances, introduction of pallet discounts would result in reduced postal revenues without any corresponding cost decreases. Such revenue losses would have to be made up in the form of increased rates elsewhere.

In summary, the full impact of palletization is not totally understood at this time. We are currently studying the issue in great detail. Consequently, the Postal Service should implement cautiously any programs or discounts which are designed to encourage additional palletization.

**QUESTION.** What is it that the customer will have to do to secure discounts for such work sharing?

**ANSWER.** If worksharing discounts are adopted for palletization, those customers wishing to secure such discounts would be expected to prepare mail on pallets properly. Proper preparation would mean sorting the mail correctly and preparing it in such a manner that it would arrive intact at its final destination. Sorting involves securing individual pieces together into packages to a single ZIP Code or other common destination which allows the Postal Service to move larger units instead of individual pieces through the postal system. (This requirement to package individual pieces applies to both sacked and palletized mailings.) The packages would have to be placed on the proper pallet, based on the destination of the mail, and correctly labeled to that destination. Pallets would have to meet the minimum and maximum weight requirements. The minimum requirements represent the

smallest amount of mail which the Postal Service can cost-effectively move through the postal system on pallets. The maximum weight limit represents the largest unit of mail that can be safely moved through the postal system on pallets and be handled efficiently by the greatest number of postal facilities, including the thousands of small post offices throughout the country.

Finally, the pallets must be secured adequately to maintain the integrity of the mail to its final destination and be loaded properly on vehicles for transportation. If the mail is not secured adequately on the pallets and in vehicles, pallet loads are likely to shift and collapse or fall apart during handling causing delays in delivery and damage to the mailing pieces. This runs counter to the best interests of both customers and the Postal Service.

It is also important that an acceptance and verification system be in place for palletized mailings. This system assures that when palletized mailings are presented to the Postal Service, the pallets are prepared properly to qualify for the presort level rates and any other worksharing discounts, and correct postage is paid. This system must be understandable, enforceable and unambiguous for both mailers and postal employees. If postal rules and regulations are enforced inadequately, there can be no assurances that the mail is prepared properly in order to arrive at its final destination intact or that the postage paid is correct for the material mailed.

**QUESTION.** You were reported to have told the House Post Office Civil Service Committee, that 80% of your costs are "tied to inflation, but none of our revenues are." I am assuming that a major portion of the 80% you were referring to is labor costs and that the primary expense would be the cost of living adjustment that is tied to postal wages. The questions that have been asked of me, that I cannot answer, and hopefully you can, are:

Why are wages tied to inflation, why not productivity?

**ANSWER.** From 1971 through 1984, the "gross productivity" measurement (total mail pieces divided by total labor hours) used by the Postal Service did not enable the Postal Service to isolate productivity gains directly attributable to postal labor, as opposed to those which were the result of mechanization and capital investment in new facilities and modernization of old ones. In sum, it was not possible to utilize labor productivity as a standard for wage determination.

It must also be remembered that under the Postal Reorganization Act, postal wage rates should be comparable to the wages paid in the private sector of the economy. The cost of living adjustment (COLA) provision, which was first incorporated in our 1971

contract, had been common in private sector labor agreements, whereas wage provisions tied to firm productivity had been relatively uncommon.

**QUESTION.** If wages were tied to productivity, since the Postal Reorganization Act, would there be a significant savings and a lower postage rate required?

**ANSWER.** If we had tied wage increases to the recently developed total factor productivity, wage levels would have escalated very slowly, thus the postage rate requirements would have been lower.

**QUESTION.** What would the impact on postal wages be?

**ANSWER.** The aforementioned calculations resulted in the following change in the straight time hourly rate between Fiscal Year 1971 and Fiscal Year 1987.

| END OF FISCAL YEAR | ACTUAL RATE* | TOTAL PRODUCTIVITY BASED RATE |
|---|---|---|
| FY 1971 | $ 4.20 | $ 4.20 |
| FY 1987 | $12.43 | $ 4.41** |

* Includes COLA

** Limiting Postal Service wage increases to the growth of total factor productivity, had that been possible, would have reduced the comparability of postal wages with the private sector and raised questions concerning our ability to attract a labor force appropriate to maintain service quality.

**QUESTION.** I recall seeing that the costs of the grievance procedures amounted to approximately $160 million, which is ironically the same amount Congress required the Postal Service to reduce its operating expense by in FY 88. Is this figure accurate?

**ANSWER.** This figure cannot be confirmed because the source of the data is presently unknown. To the best of our knowledge, the data source was not the USPS. We believe the figure of $160 million to be overstated. The Postal Service is presently in the process of collecting and gathering information in order to estimate the cost of administering the grievance and arbitration procedure.

**QUESTION.** What is being done to reduce the costs of grievances?

**ANSWER.** There is no better means of reducing the costs of grievances than by reducing the number of grievances filed annually. We acknowledge the clear correlation between an improved labor-management relationship and the number of grievances generated out of a particular postal installation. We have, over the past several years, made serious concerted efforts to maintain and improve our relationship with postal unions. Joint labor-management programs such as Employee Involvement and Quality of Work Life, the Labor Relations Plan, and various local, Regional and Headquarters initiatives such as our modified grievance and discipline procedures, union-management pairs (UMPS) and other innovative programs dealing with attendance have combined to contribute to a significant reduction in grievance activity and corresponding costs wherever deployed.

**QUESTION.** What category of employee has the most grievances and why is this so?

**ANSWER.** The clerk craft has the highest volume of grievances filed during the last year because this particular craft has the greatest number of employees.

**QUESTION.** In your Affirmative Action Program, I noted that you emphasize women's programs and Hispanic and black programs. Do you have a program for Alaskan natives or for individuals from the Philippine or Asian communities?

**ANSWER.** The Postal Service has formally designated its Handicapped Program, Hispanic Program, and Women's Program as "Special Emphasis Programs," in accord with government regulations. However, all protected minority groups are covered by the Postal Service's Affirmative Action Program, including Blacks, Asian American/Pacific Islanders, and American Indian/Alaskan Natives. Attention is focused on the special needs, obstacles, and concerns of all these groups, particularly when they are underrepresented in Postal Service employment. There is an Affirmative Action/Equal Employment Opportunity Programs Coordinator position at each of our 74 divisions to manage the affirmative action program and supervise day-to-day affirmative action activities. In addition, the divisions are authorized to designate *ad hoc* Affirmative Action Coordinators for any of the protected groups when one or more of the following occurs:

1. There is an underrepresentation between the protected group in the workforce and the civilian labor force.

2. There is underrepresentation between the USPS workforce and the protected group's representation in management levels.

3. Specific programs (e.g., retention) need the attention of an Affirmative Action Coordinator for that protected group.

4. Geographic needs require an Affirmative Action Coordinator.

The *ad hoc* affirmative action coordinators report to the Affirmative Action/Equal Employment Opportunity Programs Coordinator.

**QUESTION.** Mr. Postmaster General, I did note the fact that, for the fifth year in a row, the Postal Service has exceeded its goal in the hiring of the handicapped. I want to take this opportunity to commend and compliment you on this admirable accomplishment. However, it has been suggested that in some cases these handicapped individuals who have been hired are not being given responsibilities commensurate with their skills.

What mechanism does the Postal Service have to ensure that the handicapped who are hired are given every opportunity to reach their full potential and be of utmost help to the Postal Service?

**ANSWER.** The Postal Service primarily hires the great majority of its employees into entry level positions ranging from PS level one to six. Promotion considerations above entry level positions for nonbargaining positions are filled based on merit promotion principles. Promotions to jobs covered by one of the Union contracts are filled according to the appropriate bargaining unit agreement.

Although our hiring is initially into entry level positions, the Postal Service has a strong commitment to upward mobility for all individuals, including handicapped persons. Handicapped individuals are afforded the same opportunities for changing jobs and obtaining promotions as other employees.

There may be situations where both handicapped and nonhandicapped individuals have skills and qualifications other than those utilized in their entry level jobs. These individuals may apply for jobs more in line with specific skills or interests as vacancies occur and the jobs are posted.

You will note from the following Promotion and Training Opportunities statistics that 6.6 % of the total handicapped employees were promoted last year compared to 6.41% for the total work force.

**QUESTION.** Your report indicates that you suffered a moderate loss of $223 million last year and that your mail volume grew only at a 4.4% rate, which was below your projection. What was your projection?

**ANSWER.** The projected volume growth rate for Fiscal Year 1987 was 6.9 percent.

**QUESTION.** Why were your predictions wrong--what caused the mail volume to be less than you anticipated?

**ANSWER.** Mail volume growth was projected to increase from the 5.2 percent rate of Fiscal Year 1986--a rate of growth which had been inhibited by the effects of postal rate increases implemented in 1985. However, a number of factors reduced Fiscal Year 1987 volume growth. These include the diminishing effects of financial and telecommunications deregulation on mail volume, the slackening growth of aggregate advertising expenditures, the maturing of the third-class mail market, and the decreasing adult population growth. It is now clear that the record high mail volume growth of the middle 1980's was the result of a unique set of circumstances.

**QUESTION.** Are the same causes likely to create lower than expected volume this year?

**ANSWER.** No. Building on the experience of 1987, the Postal Service revised its mail volume projections in time for incorporation into the recent omnibus rate case. Through the first six quarters (one and one-half years) of the rate case forecast, adjusting for the timing of rate increases and the levels of Postal Rate Commission recommended rates, actual volume is within 0.3 percent of forecast volume. Also based on the rate case forecasting model, for the most recent quarter (Postal Quarter 3, Fiscal Year 1988) actual postage revenue differs by less than one million dollars from the forecast revenue of over eight billion dollars--a difference of less than 0.01 percent.

**QUESTION.** To what extent will the new higher postal rates affect volume?

**ANSWER.** The recent rate increases will decrease volume growth through the remainder of Fiscal Year 1988 and well into Fiscal Year 1989. Mail volume growth is projected to drop from approximately four percent in Fiscal Year 1988 to about one percent in Fiscal Year 1989.

**QUESTION.** Last year the Board authorized the purchase of 32,000 computerized integrated retail terminals to be installed in windows throughout the nation. Did the Congressional budget cuts effect that purchase?

**ANSWER.** The Board approved capital funding in the amount of $87.7 million on July 7, 1987, for Window Automation Phase III for 35,924 integrated retail terminals.

Due to the Omnibus Budget reconciliation Act of 1987, funds committed in Fiscal Year 1988 will total $48.7 million for 23,000 integrated retail terminals, delaying the purchase of the other 12,924 terminals until Fiscal Year 1989.

**QUESTION.** When these retail terminals are installed in these windows, what effect will they have on reducing long lines in post offices that we so often hear about?

**ANSWER.** The integrated retail terminals were purchased to produce more consistent service and more timely and accurate accounting reconciliations. While some individual transactions such as the rating of foreign mail will be greatly accelerated, customer lines as a whole may not necessarily be shortened as a direct result of IRTs.

**QUESTION.** I have noticed an alarming increase in theft of mail. What actions has the Postal Service taken to prevent this from happening?

**ANSWER.** Our renewed emphasis on investigations is a concerted effort to put in place a strong ongoing prevention program that relies heavily on internal publications and presentations to get the antitheft message across to postal employees. Last year, we set up a widely publicized toll free 800 number for employees to anonymously report fraud, waste and abuse, 24-hours a day. We have also become more vigorous in seeking prosecution of those identified for stealing mail, to serve as a deterrent to others. These efforts have resulted in a more educated public which, in the long run, should result in a decrease in criminal opportunity and fewer crimes against the U.S. Postal Service.

**QUESTION.** There seems to be increasing concern expressed by stamp collectors over the number of commemorative stamps being issued by the U.S. Postal Service. Having been chairman of this committee for six years and having sat on it for even longer, I'm well aware of the tremendous pressure on us, as legislators, to urge you to issue even more commemorative stamps honoring events, organizations, or individuals. What is your view of some of those

in the philatelic community that wish to see the number of commemorative stamps reduced?

**ANSWER.** A few years ago, there was great concern among many stamp collectors about the large number of commemorative stamps being issued. We were aware of this through our ongoing contact with collectors and through our monitoring of the philatelic media, where letters to the editors frequently decried the number of stamps. In recent years, however, the number of complaints has decreased dramatically, and we seldom hear such concerns expressed. As should be expected, some individual stamp subjects are less popular than others and elicit some displeasure, but generally the number of stamps and the majority of subjects are received positively by the philatelic community.

**QUESTION.** How important to the overall postal operation is the Philatelic division?

**ANSWER.** The Philatelic Division is important in several ways, not the least of which is the financial contribution it makes to the Postal Service. For example, it is projected that in Fiscal Year 1988, philatelic revenue will amount to $132.8 million, and next year, it is anticipated that it will increase to $155.8 million. In addition to the monetary rewards of the program is the important fact that philatelic efforts contribute immeasurably to the image of the Postal Service through the favorable media attention accorded to stamp dedication ceremonies, products and publications. People greatly enjoy attending the ceremonies, and the city of Washington, D.C. annually designates the unveiling of the new Love stamp design as the highlight of its New Year's Eve celebration, comparing it to the lowering of "the big apple" in New York City.

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